

The University of Chicago

CONTROL OF THE RETAIL UNITS
OF CHAIN STORES

A PART OF A DISSERTATION SUBMITTED
TO THE FACULTY OF THE SCHOOL OF
BUSINESS IN CANDIDACY FOR THE
DEGREE OF DOCTOR OF PHILOSOPHY

1935

By

EDGAR HOWARD GAULT

Private Edition, Distributed by
THE UNIVERSITY OF CHICAGO LIBRARIES
CHICAGO, ILLINOIS

1935

The University of Chicago

CONTROL OF THE RETAIL UNITS OF CHAIN STORES

A PART OF A DISSERTATION SUBMITTED
TO THE FACULTY OF THE SCHOOL OF
BUSINESS IN CANDIDACY FOR THE
DEGREE OF DOCTOR OF PHILOSOPHY

1935

By

EDGAR HOWARD GAULT

Private Edition, Distributed by
THE UNIVERSITY OF CHICAGO LIBRARIES
CHICAGO, ILLINOIS

1935

COPYRIGHT, 1935
BY THE
UNIVERSITY OF MICHIGAN



AUTHOR'S NOTE

One of the important problems in chain store operation is the invention and use of methods that give the executives of the central office adequate managerial control over the scattered retail outlets. The present study was made to discover what control methods were being used by various types of chains and what conditions in the various chains caused the use of particular types of control. If, under the same conditions of operation, a certain pattern of control was found to be in successful use by several chains, then it might be concluded that the same pattern would also be successful in a chain operating under similar conditions.

With this objective in mind, the chain stores included in this investigation were selected because of the widely differing conditions under which they operated. The method precluded an intensive study of one type of chain but enabled the investigator to secure the data which were pertinent in explaining variations in the control methods found in the chain store field.

In the course of the survey, it was found that a detailed statistical study could not be made. Statistical data, except essential operating figures, were not compiled by many chains, and in very few instances were statistics available which had a direct bearing upon control methods. It was found possible, however, to secure from executives of every chain an explanation and criticism of their particular control methods and permission to observe the control system in operation. Material was available also in the *Chain Store Age* and other publications in the chain store field, which was valuable in supplementing the data secured from the survey.

The lack of available statistics prevented the presentation of statistical evidence in evaluating the effectiveness of the various methods of control. The widespread use of certain methods of control among chains, however, and the satisfaction expressed by chain store executives in respect to the results obtained are evidence that these methods are effective, if

certain conditions exist. Most of the analysis in the study is devoted to discovering the relationship between the various types of control methods and the conditions under which these methods are successfully used.

The author desires to express his appreciation to the many chain store executives whose co-operation was essential in collecting material for the monograph, and to Professor James L. Palmer, of the University of Chicago, whose constructive criticism has been invaluable.

E. H. GAULT

Ann Arbor, Michigan
April, 1935

CONTENTS

	STUDY PAGE NUMBER
Summary and Conclusions.....	1
Chapter 1. Introduction.....	5
The Problem	
The Data	
Characteristics of the Data	
Method of Investigation	
Limitations of the Study	
Chapter 2. Control of Merchandising.....	13
Selection of Merchandise	
Stock Plans	
Stock-Turn	
Control of Retail Price	
Control of Window Display	
Advertising	
Control of Special Services	
Conclusions	
Chapter 3. Control of Inventory.....	44
Types of Inventory Control Systems	
Retail Method of Inventory	
Cost Method of Retail Inventory Control	
The Cost Method of Inventory Control	
Unit Control	
Requisition Control	
Other Methods of Inventory Control	
Conclusion	
Chapter 4. Control of Finances.....	66
The Banking Process	
Credit Sales	
Expenses	
Limits of Financial Control	
Conditions Determining Financial Control	
Chapter 5. Control of Personnel.....	79
Chapter 6. Conclusions.....	88
Size of the Chain	
Size of Individual Outlets	
The Location of the Outlets	
Nature of Merchandise Handled	
The Major Executives	
The Typical Chain Store Organization	
Appendix.....	97



Digitized by the Internet Archive
in 2026

CONTROL OF THE RETAIL UNITS OF CHAIN STORES

SUMMARY AND CONCLUSIONS

This monograph is a study of the control methods which are employed by the central offices of various types of chain stores in managing their retail stores. An attempt has been made to answer two questions: (1) What are the control methods that are used? (2) What conditions affecting a chain store are influential in determining the control methods that it uses? In exercising managerial control over its retail stores, a central office must exercise control over the merchandising, inventories, finances, and personnel in the retail stores. The specific type of control that is used by a given chain appears to be determined by the following conditions: (1) the nature of the merchandise, (2) the size of the chain, (3) the size of the individual retail stores, (4) the distances between the central office and the retail stores, (5) the distances between the retail stores, and (6) the personal preferences of the owners and managers. If these conditions are known for a given chain, then it is feasible to outline the type of managerial control which may be used successfully in the management of its retail stores.

Since each of the six conditions is itself a variable and is found in combination with the other five conditions in every chain, no two chains follow exactly the same methods in the managerial control of the retail outlets. Nevertheless, the similarity of conditions under which certain chains operate brings about a general similarity in their control methods. Since the methods of control are, within broad limits, arbitrarily dictated by the chief executives of a chain, the conclusions reached do not apply to all chains within a group classification.

The nature of the merchandise handled determines whether the retail method of inventory can be used by a chain in controlling retail stocks. The nature of the merchandise handled,

from the standpoint of perishability, determines the limit of the detailed merchandising activities that may be directed from the central office. A high degree of perishability in merchandise makes it necessary to move the merchandise quickly, and the store manager must be allowed considerable leeway in manipulating the merchandising program in order to secure this result. The unit value of the merchandise is a deciding factor in determining the kind of physical control which can be exercised over the inventories of merchandise in the retail stores. Items of low unit value cannot carry the expense of a detailed item-by-item control which would be suitable for a furniture or ready-to-wear chain. If the processing of merchandise is carried out at the retail store, the retail value of the merchandise may not be determinable at the time the merchandise is sent to the store. For such merchandise, the cost instead of the retail method of inventory control must, necessarily, be used. If customers expect credit, installation, and maintenance service for certain items handled by a chain, the services can be given. If the services are not given, the reason is not an inability to control these services. Again, the nature of the merchandise is frequently the dominating factor in determining the employment standards of a chain and the personnel policies which are followed.

The size of the chain is outstandingly important in its relationship to the extent and types of organized management used. Small local chains, which numerically comprise most of the chains in the country, use approximately the same control methods as independent stores of similar size. With an increase in the number of outlets the control of the retail units gradually takes a form which is typically that of a chain store. Occasionally the owner of a small chain develops and uses control methods which in some respects are superior to the methods employed in the larger chains.

The size of the individual stores, which is determined, to a great extent, by the nature of the merchandise handled, in turn limits the income which can be received by store managers. The large incomes which are possible in large stores enable a chain to employ highly skilled managers who can be relied

upon by the central office to handle most of the management problems in the retail stores. More detailed supervision by the central office is found in the chains with small retail stores.

The distance between the central office and the retail stores is the dominant condition that determines the amount of detailed service which the central office can render to the retail store organization. If the distance is great, this service must consist largely of ideas and special supplies for carrying out the ideas. If the stores are clustered around the central office, such work as installing window displays, making repairs and alterations at the store, granting credit, and making collection of delinquent accounts may be handled directly from the central office.

If the retail stores are scattered, not only is the central office unable to render the detailed services mentioned above but the liaison or supervisory division is unable to give continuous detailed supervision of the activities at the retail store. For these stores, which include the variety, dry goods, and department stores, the manager must be relied upon to carry on the detailed activities of his store. The previous experience of the manager in subordinate positions gives the central office confidence in his ability to perform his work. On the other hand, the concentration of groups of stores within small areas, which is typical of grocery chain operations, enables the liaison division to give to each store close supervision and to decide most of the questions of management which may arise in a store.

The personal preferences of owners and managers of chains cause wide variations in the extent and types of organized control that are used. These men have the final decision in respect to control policies. Any type of control, whether good or bad, elaborate or meager, may be decided upon quite arbitrarily. Or the decision may rest upon a detailed study of the conditions which in detail are peculiar to a chain, and which make a satisfactory plan of control for it differ from the normal. In this study, however, the control methods of most chains have been found to form patterns that with few exceptions are similar for chains operating under similar conditions. This fact leads to the conclusion that the patterns of control are normals

for various sets of conditions under which chains commonly operate. With a knowledge of what the patterns are and why they appear, one is able to determine the causes of the maladjustments which may exist in the control methods of a chain and to suggest the changes which will bring about a more satisfactory condition.

CHAPTER 1

INTRODUCTION

The present study is one of chain store organization and control, especially that part which co-ordinates the work of the central office, or branch, and the various retail outlets. From our viewpoint, the outstanding characteristic of chain store organization is the centralized control of many distant retail outlets. The central office plans and directs the activities of the chain, many of which are carried out in the scattered retail outlets. The organization must provide for a means of controlling the outlets in order that the plans of the central office may be executed. This means that orders and directions are issued from the central office to the outlets, and the outlets, in turn, send back reports of performance as the orders are carried out and directions followed.

From the standpoint of control, the chain store organization is characterized by three distinct divisions: a central office or headquarters division, a retail outlet division, and a liaison division. The central office division unifies the activities of the organization. From it flow the policies, plans, and methods of procedure as well as the inspiration for orderly activity which vitalizes the entire organization. Territorial headquarters, or branch offices, are used to facilitate the work of the central office in the national and in the sectional chains with scattered outlets.¹ These branches are not a special division of the chain store organization distinct from the central office, liaison, and retail store divisions. The branches are either a part of the central office or liaison division or a combination of the two. In the national grocery chains, the main branches are the part

¹ In the Great Atlantic and Pacific Tea Company divisional offices have been introduced between the central office and the branches. From the standpoint of the direct operating control of the retail stores, the branch offices are subdivisions of the central office and have all the responsibility of management that is found in the central office of the smaller chains.

of the central office that carries out the routine supervision of the liaison and retail store divisions of the organization. On the other hand, the Chicago branch of the Walkover Shoe Stores chain is a part of the liaison division. It is merely a convenient office from which the district manager supervises the Walkover stores in the Chicago district and reports to the central office in New York City.

The retail unit organization carries on the physical operation of the various retail outlets. It is made up of the store units, each of which is in contact with the central office. The individual chain store units are not closely linked to one another except through the central office. A rimless wheel, with the hub representing the central office and each spoke a retail outlet, gives a closer graphic representation of chain store organization than do the links of a chain.

The liaison division is that part of the organization which supplies the personal contact between the various retail outlets and the central office. It is made up of the store supervisors and their superior officers, who shuttle between the retail outlets and the central office, directing the outlets in accordance with the policies and plans of the central office and evaluating and reporting to the central office the performance of the unit stores in the retail outlet division. Since the routine control of the stores is taken care of by systems of orders and reports between the central office and the stores, the liaison division is left free to introduce new plans to the stores and to correct weaknesses and mistakes discovered from the reports.

The system of control used and the division of management between the central office and sales places are mutually determining. A system of control is designed to meet a certain division in management; the management, in turn, is modified so that control may be accurate and inexpensive. Two general divisions in the systems of control may be recognized: (1) directive control, through which the activities in the retail stores are ordered, and (2) informative control, through which a check on the results of retail store performance is secured. These two divisions, of course, are not mutually exclusive; the

distinction merely indicates the aspect of control which is emphasized by the central management of a given chain.

Directive control is more elaborate and expensive to operate than informative control. Its use gives the detailed information that explains the results secured in operating the retail stores. This information is available for directing the future activities of the business. When directive control is emphasized in chain store management, more of the tasks of management are handled at the central office. The problem of the store manager is to follow detailed instructions from headquarters in carrying out the tasks assigned to the retail store. These instructions cover not only what should be done but also the manner in which the work should be performed. A detailed control by records and personal inspection gives a check on how well instructions are followed.

Informative control, which evaluates results, is less expensive to operate than directive control. It gives less information upon which to base managerial decisions, and it results in less formal co-ordination of activities between the central office and the retail stores. It places a greater amount of managerial responsibility in the sales places. The "how" of performance is left to the discretion of the store manager, who is placed largely in the rôle of an independent merchant and who, within wide limitations, operates his store very much as he pleases as long as satisfactory results are obtained. Whenever results are unsatisfactory, special controls may be established to enable the central office to direct the activities of the outlet along more profitable lines.

THE PROBLEM

Our problem is to determine the extent and modifications of control found in chains varying in size, location of retail outlets, and types of merchandise handled. The conclusions reached have to do with the methods of control employed by typical chain organizations and the reasons why these methods are particularly adapted to given types of chains. Specifically, an attempt will be made to answer the question: Under various conditions, what central office methods may be expected to

operate satisfactorily in controlling merchandising, inventory, finance, and personnel in the retail outlets?

THE DATA

In the study of the methods of control of retail outlets, sixteen types of chains were investigated. It was thought that these would be representative of various conditions of operation under which different types of control might be expected. These chains are classified in Table 1 on the bases of types of merchandise handled and geographical distribution of stores.²

CHARACTERISTICS OF THE DATA

Groceries, meats, fruits, and vegetables, when combined in one chain, have many of the problems of control common to most chains. Groceries, in general, are relatively durable merchandise whose retail price can be controlled in detail from the central office without undue difficulty. The items are usually of low unit value, and the average sale is considerably less than one dollar.³ Low cost of control is of great importance, since gross margin is relatively small, usually ranging from 18 per cent to 22 per cent. Meats, fresh fruits, and vegetables need special controls to prevent loss from spoilage by overstocking of the retail store and to determine accurately the total retail value which may be expected from the wholesale quantities of the merchandise that are delivered to the retail stores.

The control problem peculiar to confectionery and restaurant chains is that of maintaining an adequate supply of fresh merchandise in the retail stores at all times. The restaurant divisions of these chains are illustrative of the problems of control which arise when a large part of the manufacturing process of a perishable product occurs at the retail store.

² The names of the chains contributing much of the factual material included in the survey are listed in the Appendix.

³ For one group of stores in a national grocery chain the average sale ranges from approximately eighty cents on Saturday to approximately forty cents on the other days of the week. These figures include meat and vegetable as well as produce sales.

Drug chains combine the control problems of the grocery and restaurant chains. They are characterized by the large size of the retail unit and by the complicated organization which is necessary within the stores because of the diversified products handled.

Office supply chains are difficult to control because of the many low-priced items which they must carry and the quantity discounts which are given to retail purchasers.

TABLE 1—THE CHAIN STORES INCLUDED IN THE STUDY, CLASSIFIED ACCORDING TO THE TYPES OF MERCHANDISE HANDLED AND GEOGRAPHICAL DISTRIBUTION OF THE RETAIL STORES

Type of Chain *	Number of Chains	Geographical Distribution of Stores			Number of Outlets
		Local	Sectional	National	
Confectionery and restaurant	6	5	1	---	43
Men's clothing	5	3	2	---	133
Department store	6	---	3	3	94
Drug	8	6	1	1	643
Dry goods	7	---	4	3	1,994
Furniture	2	---	2	---	29
Electrical appliances and radio	4	---	3	1	115
Grocery	6	3	2	1	19,570
Hosiery	3	---	3	---	97
Men's furnishings	4	3	1	---	56
Millinery	2	---	2	---	118
Music	1	---	1	---	40
Office supplies	1	1	---	---	8
Shoes	2	---	2	---	90
Variety	2	---	---	2	2,289
Women's ready-to-wear	3	---	3	---	105
Total	62	21	30	11	

* The classification made by the Brokers Division of the National Association of Real Estate Boards is followed.

In furniture stores the unit of sale is large, and credit and delivery services must be offered.

Radio and electrical appliance chains are interesting in the study of control because of the specialty nature of the merchandise handled. As in furniture chains, credit and delivery are essential services of these retail outlets. In addition, an outside servicing division must be maintained to keep the appliances in a good operating condition for customers.

Stores selling men's suits and furnishings have both large and small units of sale, and the style and seasonal elements make careful control of retail outlets necessary.

Shoe chains handle a commodity which, because of its size and value, permits accurate and detailed control of inventory, but the style nature of the merchandise makes the problem of merchandising difficult.

Millinery chains are peculiar because of the high style nature of the merchandise handled and the opportunistic methods of pricing in some chains which permit the manager of the retail store to set retail prices on the basis of local conditions.

Women's ready-to-wear stores are similar to those handling shoes and millinery in that inventory control is easily secured. The high style nature of the goods, however, makes it difficult to merchandise these chains successfully from a central office.

The variety and dry goods chains have inventory control problems similar to those of the grocery chains. The retail stores are usually of larger size than grocery stores, and their merchandising problems are more nearly comparable to the problems of the drug chains.

Department store chains are peculiar in that the central office control of the retail units is usually limited to finance and a small amount of centralized buying. These are the only types of chains which maintain an elaborate executive and accounting organization in each retail unit.

METHOD OF INVESTIGATION

The processes of control in any chain are too intricate to be investigated by questionnaires. Consequently the study of control was carried on by personal interviews of the executives of sixty-two different chains and by a study of the control methods described by chain store executives in the magazine *Chain Store Age*. The chains whose control methods were selected for study by personal interview were characterized by variations in operating conditions due to differences in the size of the chains, in the size of the retail stores, and in the nature of the merchandise handled.

LIMITATIONS OF THE STUDY

In making a study of the control of the retail stores there are several limitations which should be noted. These limitations do not vitiate the study, but they do prevent accurate quantitative measurement of the results of a given type of control.

The mechanism of control is but a part of management, and its effectiveness depends largely upon the executives in management who exercise the control. Control devices, in themselves, supply only facts. Executives must interpret these facts and, on the basis of their interpretations, decide upon policies for operating the chain. They must then give orders and directions for placing these policies in operation. Results are affected by the ability of the managers, as well as by the mechanism of control. In fact, the ability of executives is reflected, in part, by the controls which they devise. In most instances net profit data are not available as a measure of the effectiveness of management. Even if they were available, net profit is not a satisfactory measure of any detailed phase of control, since it is the net result of all activities of the chain. Most chains do not have, and none makes available, the detailed statistics which might be used to estimate accurately the effectiveness of any detailed phase of control of the retail outlets.

Control, in most instances, has been developed by a trial and error method, and frequently the details of control are not clear-cut and definite. Control methods are in a continual state of evolution, and various modifications of a single type of control are often found in one chain. Moreover, most chains sell such a variety of items that there are significant differences in the physical and merchandising characteristics of the items handled. As a result, the retail inventories may be grouped according to product characteristics and a different method of control applied to each group. In a grocery chain, considerable variation may be found in the authority extended to the various retail store managers in the purchase of local produce. The control methods in handling groceries and fresh vegetables in the same stores must differ in important respects because of the

physical differences between the two types of merchandise. In most instances, however, the type and extent of control over the retail stores may, within broad limits, be fixed by arbitrary decisions of the managers at the central office, with the result that different types of control are found in successful chains that have approximately the same operating conditions. The difference is particularly noticeable in the extent to which detailed control is applied to the retail stores. The main types of control, on the other hand, are definitely limited to a small number, which, with modifications, are employed by all kinds of chains.

The lack of statistics with which to measure quantitatively the specific results of the various methods or tools of control does not prevent the acceptance of certain types of control as desirable. The fact that the fundamental features persist in successful chains, year after year, at least is suggestive of their soundness in chain store operation.

CHAPTER 2

CONTROL OF MERCHANDISING

Chain store merchandising embraces all the activities of a chain which induce the public to purchase its merchandise. The control of merchandising does not answer the questions of who, when, where, what, and how in respect to merchandising. The method of controlling merchandise can be decided upon only after these questions have been answered by the executives in the chain store organization. The answers, in turn, are found in the judgment of the chain store executives who decide upon the merchandise policies of the chain. The merchandising facts revealed by the control of inventory¹ supply information that is valuable to the executives in planning and evaluating the merchandising policies that the chain follows. The control of merchandising has the sole purpose of carrying out effectively the merchandising policies and plans of the chain. The control of inventory is one method of evaluating the effectiveness of these policies and plans after they have been put into effect. Our discussion of merchandising control, then, centers around the methods that may be employed to secure an effective means of enforcing policies and executing plans.

SELECTION OF MERCHANDISE

The problem in the selection of merchandise is to secure adequate and salable merchandise for each retail store. Through central buying, the importance of the chain to the wholesaler or manufacturing vendor of the merchandise is expected to secure the advantages of quantity discounts and special services. In the purchase of the merchandise, certain standard arrangements with vendors are usually made. The chain may operate one or more central warehouses to which the merchandise is shipped in large quantities and from which

¹ See Chapter 3.

it is dispersed in small quantities to individual stores for resale.² Requests from individual stores may be sent to headquarters for approval, and from there to the vendors, who fill the orders by direct shipment to the stores requesting the merchandise.³ Individual store managers may order the merchandise direct from outside sources with which the central office has a contract.⁴ In an emergency, a purchase may be made on the entire responsibility of the local manager.⁵

The ultimate purpose in the purchase of merchandise is that the retail stores may have an adequate supply of salable goods. The immediate problems of merchandising control of individual stores are the control of merchandise selection and of the quantity purchased. In most chains the locations of the retail outlets are so varied that it is not possible to carry exactly the same kind and quality of merchandise in each outlet. The central merchandising office must have a sufficiently wide selection of merchandise to meet the requirements of all its retail stores. From this wide selection, particular items may be chosen as desirable merchandise for individual stores. If these items are arbitrarily selected by the central office, the store managers do not have responsibility for the types of merchandise which they are required to sell and very frequently lack enthusiasm for their merchandise. This is a handicap to the central office in stimulating the sales efforts of the local store organization. Consequently the control of merchandise selection for individual stores should permit a store manager considerable leeway in the selection of the merchandise which he is to sell. Merchandise selection by the store manager should result in securing the merchandise which is best suited for the individual

² Central warehouses were maintained by all types of chains except millinery, women's ready-to-wear, and some department stores.

³ This procedure is found in the mail-order chains when other than catalog merchandise is bought by their retail stores.

⁴ The usual practice in the variety and department store chains included in the survey. Shredded Wheat biscuits and Fleischmann's yeast are delivered to retail grocery stores through this method of purchasing. Ice cream is delivered directly to drug and restaurant outlets by the manufacturers.

⁵ Thus in three drug chains such purchases were made from local wholesalers. In two of the grocery chains, store managers in country towns were permitted to buy produce directly from the local growers.

outlet. It also places a responsibility upon the store manager to vindicate his selection of merchandise by selling it at a profit.

STOCK PLANS

The lack of uniformity in the markets served by the outlets of many chains makes it impractical for all outlets of a given chain to have uniformity in the specific items of merchandise in their inventories. In order to secure the economies of large-scale buying and the efficiency of specialization and routine in merchandising, the chains described in this study have solved the problem of stocks in retail stores by the use of one or more stock plans.⁶ Four such plans are common among chain stores:

1. The basic stock plan
2. The general selection plan
3. The co-operative selection plan
4. The advisory plan

The basic stock plan requires each store manager to carry a certain basic group of items which the central management is convinced may be handled with profit by every store. One of the advantages of this plan is that an impression of uniformity is created in the minds of purchasers, which is especially desirable in the purchase of convenience goods, since the customers will feel free to seek any convenient retail outlet of the chain, assured that they will find the merchandise that is desired.

The basic stock plan is usually associated with the general selective plan. Store managers select, in addition to the basic stock, supplementary merchandise which may be secured from headquarters and which aids in adapting any given outlet to its individual market. This merchandise is selected by the store managers with the aid and advice of the central merchandising organization. It fits the individual outlet to its market and places on the local manager a responsibility which is accepted with much more enthusiasm than a responsibility for a stock which is entirely forced upon him. The general selection plan

⁶ See Table 2.

recognizes the individuality of the market for each retail store and regards the local managers and their immediate merchandising supervisor as the persons best qualified to make selections that will meet the needs of the local markets. The plan has the advantage of making store managers enthusiastic about their merchandise, as they are responsible for its selection within the wide range offered by the central merchandising organization. However, in some organizations, the store managers, in spite of their personal contact with local markets, do not have as much ability in selecting salable merchandise as the central-office expert does. In such a situation the selection made by the local managers may be tactfully guided by their superiors, in order that the managers will maintain their enthusiasm for the merchandise, while permitting someone else to be largely instrumental in its selection.⁷

The operation of the basic and selective stock plans may be illustrated by the routine practices of the S. S. Kresge Company and the Great Atlantic and Pacific Tea Company. Store managers receive merchandise requisition sheets that list all items. Distinguishing marks are placed after each item to indicate whether it is basic stock or selective stock. All items in the basic stock must be carried in the store inventory. The ordering of items in the selective stock is optional with each store manager. Provision is made for seasonal variations in the sale of various items by transferring items back and forth between basic and selective stock or by removing an item entirely from the list during certain periods of the year.⁸

Store managers report unlisted items for which there is an insistent demand. This demand frequently arises from the sales promotion methods of manufacturers who are forcing new products on the market through consumer advertising or are giving premiums to consumers who purchase the products.⁹

⁷ This procedure was emphasized by one of the merchandise managers of the Walkover Shoe Stores.

⁸ An example is fruit cake, which is a Thanksgiving and Christmas item in grocery stores.

⁹ Manufacturers of Malt-o-Meal and Pop Rice and Wheat Flakes offered premiums during the winter of 1931-32 which could be secured by sending the tops of the packages to the manufacturer.

The demand for the new items may collapse when the advertising is reduced or stopped by the manufacturer. These new items are placed on a special stock list, which contains a list of the items of uncertain consumer demand. The purchasing department of the chain buys sparingly of these items, and store managers are instructed to keep their inventories of these items as low as possible. Any item on the special stock list which secures a reasonably large continuous demand is transferred to the selective stock list and perhaps later to the basic stock list.

The co-operative selection plan differs from the general selection plan in that the central merchandising organization merely collects samples and does not place orders for merchandise prior to the individual selections by the store manager. From the samples, the various store managers select the items they wish to see in their particular stores. These selections are grouped by the central office, and blanket orders for the merchandise are placed with the various vendors. Thus the co-operative selection plan operates along lines similar to the co-operative buying associations of small department stores.¹⁰ For example, in one small dry goods chain, the McAllister Stores, managers meet monthly with the buyers in the central office. Samples of merchandise are displayed, and selections from the samples are made by the store managers with the advice of executives from the central office. The items selected and the quantities desired are specified by the store managers; the orders are grouped and actual purchases are made through the central office.

The advisory plan is used by department store chains having large retail units in widely scattered markets. The central office merely furnishes an informational service or the services usually supplied by a resident buyer in the department store field. Each store otherwise operates as a distinct unit with as much freedom of selection of merchandise as a completely independent store.

¹⁰ The Dry Goods Alliance and Central States Department Stores, Inc., are co-operative buying groups among independent stores.

The extent to which the different stock selection plans are used by various types of chains is shown in Table 2. In sixty-two chains, the basic stock plan and the general selective plan each appears at least fifty times. The co-operative selection plan and the advisory plan appear twenty and eight times, respectively. All but four of the chains use at least two plans for the selection of stock; and department store, dry goods, and drug chains frequently use three plans.¹¹

TABLE 2—CHAIN STORES GROUPED ACCORDING TO THE TYPE OF MERCHANDISE HANDLED AND THE KINDS OF STOCK PLANS USED

Type of Chain *	Number of Chains	Basic Stock Plan	General Selective Plan	Co-operative Selective Plan	Advisory Plan
Confectionery and restaurant	6	6	3	---	---
Men's clothing	5	5	4	1	---
Department store	6	2	4	4	6
Drug	8	8	8	4	---
Dry goods	7	4	7	4	---
Furniture	2	1	1	1	1
Electrical appliances and radio	4	4	4	---	---
Grocery	6	6	6	---	---
Hosiery	3	3	2	---	---
Men's furnishings	4	4	4	2	---
Millinery	2	---	2	2	---
Music	1	1	1	---	---
Office supplies	1	1	1	---	---
Shoes (men's)	2	2	2	---	---
Variety	2	2	2	---	---
Women's ready-to-wear	3	1	1	2	1
Total	62	50	52	20	8

* The classification made by the Brokers Division of the National Association of Real Estate Boards is followed.

The preference which chains have for the basic stock and selective plans is indicated by their wide use, as revealed in Table 2. This means that most chains limit much of their merchandising activities to items for which these methods of stock selection are suitable. One group of items that would

¹¹ The three chains using only the basic stock plan were three local confectionery chains which sold only candy of their own manufacture.

qualify are convenience goods, for which there is a widespread demand in many markets.¹²

Shopping goods of a non-fashion type for which there is a wide consumer demand can also be merchandised through the basic stock and general selective plan, as is evidenced by the fact that hosiery, shoe, and variety chains use these plans exclusively and that they are used also in a majority of the dry goods chains. Specialty goods, likewise, permit the use of the basic and general selective plans, as is indicated by the fact that some of the confectionery, men's clothing and furnishings, furniture, electrical appliance, music, and women's ready-to-wear chains use these methods.

The co-operative selective plan is found in almost all chains that handle some merchandise with high fashion, fad, or novelty characteristics.¹³ Thus, as shown in Table 2, it appears in dry goods, millinery, women's ready-to-wear, and drug chains. The fact that the co-operative selective plan is found in men's furnishings chains is merely indicative of the fact that the central management prefers to give its store managers more responsibility for the selection of merchandise than would be secured by the basic stock or general selection plans.¹⁴

The advisory plan of merchandise selection is clearly distinguishable only in the department store field. The use of the advisory plan constitutes recognition by the central office of the merchandising skill and executive ability of the chief executives of the individual stores.¹⁵ In department store chains composed of formerly independent stores, this plan has been found especially useful in retaining the good-will of the former patrons.¹⁶ Unlike most chain stores, each of these department stores, in

¹² M. T. Copeland, *Principles of Merchandising* (Chicago: A. W. Shaw Co., 1924), chap. ii, describes the specific characteristics of convenience goods. Chap. iii describes the characteristics of shopping goods, and chap. iv, specialty goods.

¹³ See P. H. Nystrom, *Economics of Fashion* (New York: Ronald Press Co., 1928), chaps. i and ii, for the characteristics of merchandise of this type.

¹⁴ This explanation was given by the president of a sectional men's furnishings chain.

¹⁵ Thus the managers of successful department stores of mail-order houses buy some merchandise independently of the central office.

¹⁶ In the Continental Department Stores, individual merchandising of the various stores was found necessary even after three years of operations.

order to have complete stocks, carries some items or brands for which there is only a small, or perhaps no, demand in the other stores of the chain.¹⁷

STOCK-TURN

The control of stock-turn is secured directly through control of the relationship between merchandise inventory and sales. Stock-turn is merely the index which measures this relationship. Good and poor operating results, however, are so closely connected with the rate of stock-turn that the central office may demand a specified stock-turn, and thus force the store manager to maintain the relationship between stocks and sales that the demanded stock-turn requires.

Except for chains with large department store units, the size of stocks in retail outlets is usually closely limited by the central merchandise office.¹⁸ The general control of the stock in the retail stores is obtained by demanding a certain stock-turn for the store as a whole. Where unit inventory or classification control is exercised over detailed classifications of merchandise, a high standard of stock-turn is set for each of the classifications, with the result that a high stock-turn figure for the store is secured.¹⁹

By demanding a high specific stock-turn from the retail stores, the central merchandising office uses an easy but arbitrary method of limiting the items of merchandise stocked in the retail stores. It forces the stores to carry only items which approach the standard stock-turn, since it is difficult to secure the standard stock-turn in a store which carries a large quantity

¹⁷ An example is handicraft items purchased from local artisans by the department store chains.

¹⁸ The methods used are discussed in the section on inventory control. In some small chains, such as the Peck Drug Company, sufficient control is not exercised over inventories to permit any directive control through the use of stock-turns.

¹⁹ The procedure as illustrated in the Montgomery Ward and Company chain is to limit the size of purchase requisitions for various items or classifications to from three to six times their average weekly sales. Since the stock-turn for the total store is the weighted average of the stock-turn of individual items and classifications, a high stock-turn for items and classifications must result in a high stock-turn for the store as a whole.

of slow-moving merchandise. The policy of some chains is to fix the quantity of any one kind of merchandise carried in the retail stores at as low a level as minimum stock limits will permit.²⁰ Such a policy has four distinct merchandising advantages: (1) A greater variety of items may be carried by each store than otherwise would be possible; (2) the merchandise in the retail stores is exposed to the hazards of display for a relatively short period of time, thus assuring freshness and reducing spoilage; (3) it is easier to take inventories in individual stores; and (4) stock shortages become apparent more quickly. Such a policy may, in some instances, result in a saving of expense. On the other hand, the policy may decrease cash discounts and increase inward transportation costs. The increase in profit secured by the policy is probably not so much in the reduction of expense as it is in the decrease in mark-downs and, consequently, in the increase in gross margin.

The use of a standard stock-turn to control the size of retail stocks, although affording a good long-time general control, is sometimes considered too slow and too general to prevent stores from becoming overstocked. Consequently, it may be supplemented by a series of penalties against the store manager to keep his attention centered upon the quantity of the various items ordered for his store.²¹ In taking physical inventories, some chains will give no value to merchandise which has been in stock over a specified length of time.²²

The problem of securing a satisfactory stock-turn from each retail store is met by several devices. In some of the more poorly organized local chains, stock-turn is used merely as an evaluative index of performance at the end of the fiscal year. On the other hand, certain local chains, such as the Cunningham-

²⁰ This is a policy which was found in all large grocery chains. In the Montgomery Ward and Company and the variety chains the store managers may set any minimum stock limit within reason.

²¹ In one large grocery chain, store managers are penalized for offering for sale produce which has been in the store more than a week. The penalty is a decrease in the profit bonus paid to the store manager. The manager is discharged if the offense is repeated. Fresh produce is a key policy of this chain.

²² The S. S. Kresge chain would not give an inventory value to merchandise in stock for more than one year. The millinery chains limit the time to three months.

Economical Drug Company and Horder's, Inc., have monthly records of stock-turn that are valuable in planning merchandise operations from one month to the next.

The variety chains, such as the F. W. Woolworth Company and the S. S. Kresge Company, depend largely upon the long apprenticeship period of five years or more through which their store managers pass to develop a sense of proportion between inventory and sales. The store managers are responsible for securing a satisfactory stock-turn, and comparisons of book inventory and sales of individual stores reveal the approximate stock-turn that each is securing.

Chains with short apprentice periods, such as grocery chains, depend upon the supervision by district managers to help store managers plan their merchandise requisitions in such a way as to avoid unprofitable items and quantities of merchandise and thus secure a stock-turn that is common for profitable operation.

Some specialty chains approach the problem in a different way. The Lerner Stores Corporation, a women's dress chain, and the Atlas Radio Stores control stock-turn entirely within the central office. In the Lerner stores, for example, both the kind and amount of merchandise to be sent to each store are determined at the central office. The store manager reports the quantity by stock number of the items sold. The size of the inventory in retail stock is determined by the shipments which are sent to the stores by the central office. On the other hand, Mangel's, an apparel specialty chain with 100 units in 28 states, gives each store manager complete control in determining the quantity of merchandise that will be shipped to his store.²³

CONTROL OF RETAIL PRICE

It is necessary for the headquarters division of a chain to exercise some control over the retail prices for merchandise in the retail outlets. The control of prices is an essential step in the control of retail store inventories and is treated in Chapter 3. The control of prices is necessary also if headquarters main-

²³ "Manager 'King' Under Mangel Control Plan," *Retailing*, exec. ed., V, 50 (1933), p. 10.

tains adequate financial control over the retail stores. This aspect of control of retail price is considered in Chapter 4. Our present interest is in the problems of controlling prices for the purposes of merchandising.

No problem in the control of setting prices is found in the chains that have all retail prices set by headquarters. The only problem of control in these chains is to be sure that the prices set by headquarters are the retail prices asked in the stores. If prices are set by the liaison division or by store managers, however, two problems arise. The central office must be sure that the retail prices are set in conformity with the price policies of the chain and, second, that the retail prices reported by the store managers are the actual retail prices.

The majority of chain stores included in the survey have their retail prices set by the central merchandise office. Aside from the fact that such a method of price-setting is essential for satisfactory inventory and financial control of the retail outlets, it has the advantage of delegating this function to officers of broader experience and judgment than can be expected of most local store managers.²⁴ There is, also, the further advantage that results from having uniform prices in all stores of a chain in a given market center. Newspaper advertising which quotes prices can be used, and prospective customers may go to the most convenient outlets with a knowledge of the uniform price quoted by the chain, and with confidence that they will not have to pay more. In the national market, large mail-order houses are quoting uniform prices on merchandise in their retail stores within large sections of the country. This is in line with the consumer buying attitude of the native American, who favors uniform prices and no price bargaining once a price is quoted.

The disadvantage of a uniform price is that the direct operating costs of the various retail stores are not uniform. Delivery, rent, and labor cost will vary considerably among

²⁴ On the other hand, the millinery chains, except fixed-price chains, allow the store managers, within limits, to set the retail price. The explanation is that the value of the same type of hat varies so much in different cities that the local managers are the best judges of the best retail prices for their particular stores.

stores located in the same trading area and served by the same advertising. However, this problem is supposedly taken care of when the stores are established. The central management is interested in total operating costs of a new store when established, and expects that a profit will be secured. For example, the greater delivery costs to a suburban store may be offset by lower costs in other expense items, and vice versa. Again, a store with high costs may be able to secure most of its sales in the items which carry the largest gross margin.

Under certain circumstances merchandising requirements may force a modification of the plan of price setting by the central office and uniform prices in all stores.²⁵ The uniform price rule is frequently modified to move merchandise that is in danger of immediate physical or style deterioration, to meet local competition, or to sell slow-moving merchandise.²⁶ The deviation from the uniform price may be made by specific orders from headquarters, but, when an immediate price reduction is necessary, the store manager may take the responsibility for the reduction,²⁷ or more often, the store supervisor, if he visits a store daily, will have the responsibility for authorizing the reduction.

The problem of controlling retail prices set by store managers is met by a demand from the central office for a certain average original mark-up. In the Consolidated Millinery Company chain, the store manager reports the retail prices that he sets upon all merchandise received. These figures enable the central office to figure original mark-up and, together with recorded mark-downs and other price changes, supply headquarters with a retail method of inventory control.

²⁵ In fact, except for Sanders stores, Horder's, Inc., Mrs. Snyder's candy stores, Lerner stores, and the Commonwealth Edison and Detroit Edison companies, none of the chains had 100 per cent price-fixing by the central office in spite of any claims that were made for such a method of controlling retail prices.

²⁶ The cut-rate warehouse grocery stores in Detroit sell many grocery items at prices far below the regular chain store prices. As a result the prices in the Kroger and the A. and P. stores located in the same neighborhoods as the warehouse stores are lowered to meet their prices.

²⁷ Thus the store managers in the outlying stores of the national grocery chains may make price reductions on perishable fruits and vegetables without the direct authorization of the district manager.

The perishable nature of the merchandise handled by vegetable and meat chains and by those handling high fashion merchandise results in the store manager's taking mark-downs, himself, on merchandise in stock, provided that the scattered locations of the retail outlets make it impractical for the supervisor to be present to inspect the merchandise, take inventory, and approve the mark-downs. Here, again, control is secured by requiring each store manager to report all mark-downs taken on merchandise in his store.

The control of retail prices within the retail outlets is usually secured by the use of the retail method of inventory control, by the enforcement of a policy which requires all merchandise within a store to be plainly marked with its retail price at all times, by the use of inventory teams, by the occasional visits of central-office executives at the stores, and by secret service shoppers who test the selling ability and honesty of store employees and report their findings directly to headquarters.

The retail method of inventory, properly used, gives the central office a book inventory at any time that is approximately the same as the physical inventory. The retail method of inventory requires that the stores use the prices set by or reported to the central office. If a store manager deviates from these prices to any great extent, this practice will be revealed by a wide variation between book and physical inventory.²⁸

If all the merchandise in a retail store is plainly marked at its retail price, a superficial survey of the store by the district manager who visits the store will usually result in the incorrect prices⁷ being noted and corrected.

Inventory teams that visit the retail stores without advance notice to the store managers report, among other things, (1) any items that are displayed without price tags, and (2) any items carrying incorrect price tags. It is obvious that, with the high pressure under which store managers operate, some price tags will be incorrect. In one grocery chain, price tags are

²⁸ Of course other conditions may cause the variation between book and physical inventory. If such a variation persists, however, the central office and liaison division will search until the cause is found.

found correct 98 per cent of the time.²⁹ In a variety chain all retail prices are expected to be those specified by the central office, or marked-down prices that have been reported to headquarters.³⁰

The occasional visits of central-office executives at the stores serve as a further check on the retail prices at which the merchandise is marked. These visits are usually not made for the purpose of checking retail prices, but such visitors are acquainted with retail prices on some of the items carried and are likely to notice incorrect prices when such prices occur.

By the foregoing methods it is possible to control retail prices accurately in the various outlets of a chain. If incorrect prices are found in large numbers, the cause is not inability to control retail prices but lies in the attitude of the central management that accurate price control is not of fundamental importance.

CONTROL OF WINDOW DISPLAY ³¹

Store display is an especially important method of securing sales in chains which handle shopping, impulse, and convenience goods. If a store is located in a shopping district, display is a strong selling force both in bringing shoppers into the store and in making sales. Thus the variety chains, such as Woolworth's and Kresge's, depend almost entirely upon display as a method of sales promotion. If a store, such as a neighborhood grocery or drug outlet, attracts customers because of the convenience of its location or through advertising, display is an

²⁹ In this chain, the Great Atlantic and Pacific Tea Company, a great deal of weight is given to correct pricing in evaluating store managers for the purpose of promotion. No advancement can be expected by a manager whose percentages of incorrect prices are greater than 2 per cent.

³⁰ This chain, the S. S. Kresge Company, varies the penalty for incorrect prices, depending upon whether the items are over- or under-priced. A store manager who is guilty of over-pricing is subject to discharge. Such over-pricing is thought to injure good-will and is not tolerated. Under-pricing is probably the result of carelessness on the part of the store manager and is penalized by withholding any routine salary increase from the store manager. Under-pricing indirectly penalizes the store manager through increasing stock shortage and decreasing gross margin of the store.

³¹ Routine interior displays are discussed under the heading of store layout. Special interior displays are usually handled in the same way as window displays.

effective method of increasing sales through silent suggestive selling. Salespeople, too, except in variety chains, are ordered and, sometimes, trained to use suggestive selling to increase sales. Regardless of whether store display is the only method of sales promotion or is supplemented by other forms, it represents an inexpensive but powerful sales stimulant which is used intensively by all chain stores.

TABLE 3—THE METHODS OF HANDLING DISPLAY MATERIAL BY CHAIN STORES
CLASSIFIED ACCORDING TO TYPES OF MERCHANDISE HANDLED

Type of Chain	Number of Chains	Displays Originated and Installed by the Retail Store Organization	Display Material or Suggestions Supplied by Central Office	Displays Originated and Installed by Central Office
Confectionery & restaurants	6	6	4	2
Men's clothing	5	5	3	2
Department store	6	6	4	---
Drug	8	8	3	3
Dry goods	7	7	7	---
Furniture	2	2	1	---
Electrical appliances	4	4	2	---
Grocery	6	6	3	---
Hosiery	3	3	3	---
Men's furnishings	4	4	3	2
Millinery	2	2	2	---
Music	1	1	---	---
Office supplies	1	1	1	1
Shoes (men's)	2	2	2	---
Variety	2	2	2	---
Women's ready- to-wear	3	3	2	---
Total	62	62	42	10

The routine practices of sixty-two chain stores in originating display ideas, supplying special display equipment, and installing displays are summarized in Table 3. It is evident from the table that all chains permit the retail store organization to originate and install some displays. It is also shown by Table 3 that most of the chains assist the retail stores in planning displays and supplying special display equipment. This assistance

is limited to window displays and major displays in the selling departments of the store.³² The assistance usually takes the form of supplying descriptions, photographs, or blueprints of model displays;³³ a list of items to be placed on display;³⁴ and special display material.³⁵ Much of the special display material is supplied by the manufacturers of the merchandise sold by the chain.³⁶

The chains which did not give special assistance to the retail store managers or their subordinates in display work were some department stores and small, loosely organized local and sectional chains with no centralized display departments.³⁷ In

³² Only in the stores of the McLellan Stores Company did headquarters specify display methods for individual items in the store. In the Kresge and Woolworth companies the store managers report to headquarters any original displays that have been exceptionally successful in promoting the sales of an item or a department. The idea is then relayed to other store managers through the merchandising bulletins from headquarters. In chains whose district managers visit the retail stores frequently, display ideas are relayed through the chain by the district managers. Thus these ideas are exchanged at the daily meetings of district managers of the C. F. Smith Company which are held at the central office in Detroit.

³³ Thus in the Montgomery Ward, Sears Roebuck, J. C. Penney, Kresge, and Woolworth companies the store managers have idea books that illustrate display methods for all departments in the stores. These ideas are intended to aid store managers and their assistants when originality and artistic ability are lacking. This assistance also saves a store manager's time in putting in displays.

³⁴ Most of the chains usually specify the type of items rather than the individual items to be placed in a window display. Each manager is then able to display the particular items that are most popular in his store. Thus in the S. S. Kresge stores the headquarters usually order window displays by departments and not by items. In all chains, headquarters may, from time to time, order the special display of specific items. This order may arise from a chain-wide promotion to promote a private brand, to follow up a special purchase, or to fulfill a display contract with a manufacturer.

³⁵ The special material consists of backgrounds and other devices that are necessary for display purposes and which cannot be readily and inexpensively improvised at the retail stores. Thus Sears, Roebuck and Company, in its department store chain, supplies most of the special backgrounds used in window displays.

³⁶ In all the drug chains there was found in use window display material supplied by manufacturers. The Procter and Gamble Company and other large manufacturers employ sales promotion representatives who call at retail stores and put in special displays. This practice increases the amount of display material that is supplied by manufacturers and is used in the retail outlets.

³⁷ It is found in Table 3 by subtracting Column 3 from Column 2 that 17 chains rely entirely upon the retail store organization for the planning and

contrast with the loosely organized chains, some local chains supplied retail store managers with a complete window display service. An expert display man from the central office visited each store regularly and, with the assistance of the store manager, installed window displays and suggested other displays within the store.³⁸

The plan that apparently secures both effective and economical displays for most chains is for headquarters to supply display ideas and equipment to the managers of the retail stores, and allow the managers and their supervisors, who are acquainted with the individual outlets, to select and install such display creations as best fit the merchandising needs of each store. Sometimes a store manager may suggest to the central office display ideas which he thinks will be productive in his store and have the display department plan the display.³⁹

If the retail stores are so grouped that a display specialist may economically be used to visit the various outlets and install displays, such a plan is desirable. The plan enables a professional display man to plan displays that meet the needs of individual stores. The store manager and supervisor decide on any variations of display needed for a given store, while the display man creates and installs the display. Where this condition exists, the central display department, as a part of the general merchandise division of the chain, controls all phases of display by having its representative in direct contact with all outlets. Even where such direct control exists, the store managers are responsible for installing most counter and table displays, with specific directions from the central office, in some instances, as to where such displays shall be used, how they shall be made, and for what length of time they shall remain unchanged.⁴⁰ The

installation of window displays. These were all local and sectional chains, such as the Peck Drug Company of Grand Rapids, Michigan, and the Crippen and the Calkins-Fletcher chains of Ann Arbor, Michigan.

³⁸ This practice is followed by Horder's, Inc., of Chicago and the Cunningham-Economical Drug Company of Detroit. Even the merchandise that is placed in the windows is brought to the stores by the display division and is not taken from the stock of merchandise in the retail stores.

³⁹ A method used by both Horder's, Inc., and Cunningham-Economical Drug Company.

⁴⁰ McLellan Stores Company has used such a procedure. Such exact speci-

displays are either devoted to items of merchandise which the central merchandise department wishes to have displayed in all stores, or they are special displays designed to help the store manager move overstocked items or stimulate the sales of popular merchandise.

As is indicated by Table 3, it is expedient in many chains to have the store managers or their assistants install all displays. The chains have all store managers trained in creating and installing displays during their apprenticeship in the training school or under another manager. The central merchandising office, however, seeks to increase the effectiveness of displays by giving definite instructions in respect to installing a given display. These include the length of time a display may be run unchanged; the names of items which must appear in the display; suggestions as to other items which may be used; pictures of window displays similar to the one to be installed; and any special equipment for the display which it is economical for the central office to supply. This information and equipment, together with the previous experience of the store manager and his knowledge of the chain's display policies, enable him to install the type of display which the central merchandising department considers most effective.

When window displays are installed by the display department of the liaison division, the central office control of window displays is adequately secured by reports of the store and district managers, who will object to headquarters about any displays that are not satisfactory.

The routine control exercised by the Whelan Drug Company of New York illustrates one method of control.⁴¹ The window trimmer is given photographs of the displays he is to set up. When he arrives at a store, the store manager enters the time on the trimmer's store report card. The trimmer then puts in the displays and the store manager O.K.'s his approval

cations by the central office may be criticized on two grounds. First, they subordinate the authority and responsibility of the store manager and stifle his initiative. Second, they are not flexible enough to provide displays that best meet the requirements of individual stores.

⁴¹ A. M. Rosenthal, "Centralizing Window Display," *Chain Store Age*, drug ed., VII, 6 (1931), p. 24.

on the report card and also enters the time at which the trimmer leaves the store. The display report is turned in to the display manager by the trimmer.

The installation of windows by the central office solves certain problems of control of display. The displays are set up by experts, and thus the technical quality of the display is assured. The central office has an adequate check to be sure that displays are put in as planned. Economy is secured through mass production of display material in the central display department.

Certain problems of control, however, are created by a centralized division for installing window displays. If retail stores are scattered, the expenses of operation may prevent the use of special window trimmers in the liaison division. The Louis K. Liggett Company has solved this problem by using special display men in communities with a sufficient number of stores to justify their use. Isolated stores, on the other hand, receive instructions and supplies for displays from the central office, but the actual installation is made by the store manager or some of his assistants in the retail store. The Mary Lee candy chain of Detroit has a special display man for the Detroit stores, but the two Ann Arbor stores have their displays installed by the store managers. Chains with scattered retail outlets, such as Sears Roebuck, Montgomery Ward, and J. C. Penney, are prevented from regularly installing windows by traveling display men because of the expense involved.

A second problem arising from the installation of windows by special display men from the liaison division is the difficulty of making windows planned at the central office fit the specific needs of individual outlets. Some chains recognize no such problem. The Hoefeld chain of Chicago, a men's clothing chain, claims that each outlet reaches the same type of consumers, and the same displays are placed in all stores at the same time. The Long's Hat Stores Corporation of New York does not believe in standardizing its window displays.⁴² The

⁴² According to Louis A. Chapman, display manager, the various stores show differences of demand in price, color, and style which make individualized windows desirable. ("Planning Ahead for Seasonal Displays," *Chain Store Age*, mdse. ed., VI, 2 (1930), p. 39.)

Schrafft candy chain of New York has uniform window displays but allows store managers to use their judgment in modifying displays because of weather conditions.⁴³

The plan of the Cunningham-Economical Drug Company offers a solution to the problem of individualizing displays for each outlet. Displays are classified as compulsory, optional, modified, and individualized. All window displays are regularly installed by a centralized display office. The compulsory displays include chain-wide promotions and window display agreements with manufacturers. Optional displays are complete displays worked out at the display office. Modified displays are optional displays that are changed to meet the needs of one or a few stores, and individualized displays are special displays for individual stores—for example, those used in opening a new store. The compulsory displays take up only a part of the display space in each of the various retail stores. The remainder of the space is used for optional displays, which are usually accepted by the store manager, with only slight changes. When a trimmer puts in a display window, he shows the store manager the display plans for the following week. The store manager requests any changes in items displayed which he feels are needed to make the display more effective for his store. If the changes appear reasonable, the trimmer and display manager then modify the display for that store in line with the suggestions of the store manager.

It has already been pointed out that a centralized installation department is too expensive when the retail units are widely scattered. Consequently, chains with scattered outlets, such as the variety and dry goods chains, must put in their window displays without the personal assistance of a display man from the central office. In the department store chains, the individual stores are sometimes sufficiently large to justify a resident display man or even a complete display department. For such grocery chains as the Great Atlantic and Pacific Tea Company, Kroger Grocery and Baking Company, National Tea

⁴³ "Putting Pulling Power into Schrafft's Displays," *Chain Store Age*, mdse. ed., VII, 2 (1931), p. 36.

Company, and the C. F. Smith Company of Detroit, the expense of installing displays from the central office is given as the reason for not supplying store managers with special display men. In the National Tea Company, however, some district managers have assistants who help store managers in putting in window displays. In many of the small local chains no display men assist the store managers, probably because these chains have not developed organizations that utilize all the aids to efficiency that can be secured from the operation of localized chain stores.

The method of checking on store displays by the central office is through the regular supervisors. Additional checks are secured in some instances through inventory teams from headquarters and through service shoppers. The inventory teams of the large grocery chains check, in particular, the price tags on merchandise in the window displays. The Woolworth company reaches each store at least monthly with service shoppers who, among other things, report on window displays. The Mary Lee and MacDiarmid candy chains have service shoppers from headquarters who report on any failure of the store managers to carry out the display policies of the chain.

The fact that most central offices do not exercise a more detailed check on display or give detailed instructions in regard to display does not signify that the chains do not consider display an important tool in selling. A routine check is not necessary, because the failure of a store manager to use adequate display or follow instructions will, after a time, be detected by chain executives visiting the store. Meanwhile, the only loss suffered by the store through poor display is a decline in sales that will be prevented when the displays are improved.

Detailed instructions specifying all details in respect to displays add to the expenses of the central office and decrease the responsibility of the store managers, who are thereby given one more excuse for explaining a low gross margin or a decline in volume of sales.⁴⁴ Moreover, such detailed control makes the

⁴⁴ It has previously been noted that the plan of the Cunningham-Economical drug chain avoids this situation.

store manager less of a manager and more of a clerk. In so far as the central offices desire to have each store manager take a proprietary interest in his store, the central office will, as far as possible, guide the display work in the stores through general instructions or suggestions. As a matter of economy, the central office should supply any complicated display devices required by the retail stores.

In conclusion it may be said that the central offices of most chains exercise some organized control over store displays, except small local chains that have not yet organized for control of display and certain department store chains that, according to Malcolm P. McNair, are not real chains but department store ownership groups.⁴⁵

The type of control used and the problems arising from store display depend primarily upon whether the central office and liaison divisions of a chain actually install the displays in the retail store or merely assist the store manager in setting up the displays through photographs of displays, instructions for installation, and general supervision by the liaison division. Expense from the complete installation of displays by the liaison division prevents this practice except in chains with outlets that are, geographically, highly concentrated. Even with highly concentrated outlets, expense may be the reason for not using special display men in the retail stores of grocery chains, or other chains that operate with a relatively low gross margin.

In most chains with widely scattered retail stores, the displays are installed by the store manager or his assistants, the central office usually providing detailed suggestions for displays and supplying some display materials. The problems of control arising from the two general methods of handling window displays differ considerably, but, as shown by the material in this section, these problems have been met with relative success both by chains with highly concentrated groups of stores and by chains with widely scattered stores.

⁴⁵ *Expenses and Profits of Department Store Chains and Department Store Ownership Groups in 1931* (Cambridge: Bureau of Business Research, Harvard University, 1933).

ADVERTISING

Most chains depend upon advertising as well as on the location of retail outlets and store displays to secure sales.⁴⁶ Some chains, especially those with national distribution, have used national advertising to increase prestige, secure sales, and, indirectly, to protect themselves from the many public attacks which are made on chain stores as social and economic institutions.⁴⁷ By and large, newspapers are the principal advertising medium for chain store advertising.⁴⁸ Other forms of publicity, such as radio, handbills, and direct-by-mail advertising, are used to a very much lesser extent.⁴⁹

The control of chain store advertising is entirely a problem of the advertising department at headquarters if that department creates all the advertising, sends it directly to the newspapers for insertion, and approves payment of all bills for space which are received directly from the newspapers.⁵⁰

With few exceptions, the central offices of all chains that permit the preparation of advertisements at the retail stores supply stock advertisements, which are used by the retail stores in so far as such advertisements meet the merchandising needs of the chain.⁵¹ The stock advertisements are prepared with

⁴⁶ All chains included in the survey use some advertising.

⁴⁷ Chains that have used this form of advertising are Sears, Roebuck and Company, Montgomery Ward and Company, J. C. Penney Company, F. W. Woolworth Company, Kroger Grocery and Baking Company, and the Great Atlantic and Pacific Tea Company.

⁴⁸ Cf. W. S. Hayward and P. White, *Chain Stores* (3d ed.; New York: McGraw-Hill Book Co., Inc., 1928), p. 201: "The majority of chain-store advertising now appears in newspapers, and must continue to do so. In the grocery field, it is estimated that about two-thirds of the advertising appropriations are used for newspaper advertising, practically all of the price character. In the drug field probably the same ratio holds true. Of the remaining third, the majority goes for window display work."

⁴⁹ Handbills are used most frequently by the grocery and local drug chains. The A. and P. Gypsies is the only well-known radio program sponsored by a chain. Direct-by-mail advertising is not a regular part of the advertising program of any except the two mail-order chains. For these chains the advertising is as much mail-order as direct-by-mail advertising and is prepared at and mailed from the central office.

⁵⁰ The complete procedure described is that employed by the three large grocery chains and by all local chains included in the survey.

⁵¹ The exceptions are some of the sectional chains, such as the Peck Drug Company, mentioned above.

technical skill and economy, and serve, equally well, all the outlets operating under the same merchandising conditions. Stock advertisements or their subdivisions are used by store managers to secure skillful and economical aid in the preparation of advertising and at the same time to meet the merchandising requirements of one store or a small group of stores. In so far as stock advertisements do not meet the advertising requirements of a chain, subdivisions of stock advertisements are combined into new advertisements. When such advertisements cannot be used to complete the advertising program, special advertisements are prepared for individual stores.⁵² Since the preparation of special advertisements sacrifices either economy or technical skill, individualized advertisements are used only when stock advertisements are not satisfactory in meeting the merchandising requirements of an individual store. The importance of the variations among stores in respect to local merchandising conditions determines the proportion of stock, semi-stock, and special advertisements which will be used.⁵³

If an advertisement is prepared in the retail store under the direction of the store manager, the control of its technical aspects and of its conformity to the policies of the chain is secured through an evaluation of the advertisement at headquarters. This represents a form of evaluative control. Errors in judgment and technique are not discovered until after the advertisement has been run. Any errors that are found in the advertisement by the central office or district manager are called to the attention of the store manager involved and instructions are given that are expected to prevent the repetition of the errors in the future.

The problem of determining the effectiveness of the advertising used by a store manager is also solved by the evaluating

⁵² It was found that, whenever the individual outlets had advertising departments, advertisements were largely individualized for each store or local group of stores. On the other hand, if a store manager had to make up the advertisements, the advertising helps from the central office were freely used.

⁵³ Cf. Hayward and White, *op. cit.*, p. 202: "From the standpoint of quality of advertising, every argument is in favor of the expert at headquarters. In the second place, the cost of writing copy and preparing set work is much cheaper when prepared at headquarters."

method. The primary purpose of practically all chain store advertising prepared by a store manager is to secure immediate sales. The effect of the advertising may be estimated by any large relative change in the volume of sales of the items or departments that are advertised. The many chains handling specialty merchandise use inventory control systems that accurately reflect such changes in sales volume. Some chains that handle convenience goods, such as the National Tea Company and the Great Atlantic and Pacific Tea Company, use inventory control systems of equal accuracy. Other chains, whose central offices have less detailed control over store inventories, use a special count method which supplements their regular inventory control. As an example, the method of the S. S. Kresge Company may be outlined. The store manager reports the sales of each item appearing in an advertisement for the week preceding and the three days following the appearance of the advertisement. The central office uses these figures to evaluate the sales effectiveness of the advertisement. The reliability of the figures reported by the store manager may be checked, in a general way, by an audit of the merchandise requisitions received from the store manager, which give, on each requisition, the date, items, and quantities ordered.⁵⁴

The control of advertising, like the control of most forms of merchandising, is secured through an evaluation of results. Such control relieves the central office of the petty details of directive control. It also gives the store manager a greater proprietary interest in his store and a greater responsibility for the store's success. The fact that the advertising of chain stores is usually of mediocre quality is not the result of lack of control but is the result of advertising policies established by the central office and of lack of time and ability among the members of the chain store organization.

CONTROL OF SPECIAL SERVICES

The fact that many chains do not offer a delivery or other special service to their customers is based on policy and not on the difficulty of controlling these services. In local chains, such

⁵⁴ See Chapter 3 for an explanation of control through requisitions.

as Horder's, Inc., the formal delivery service is handled directly by the central office, but a courtesy delivery may be made by one of the employees of the retail store to whom the order is given. These informal deliveries that are made by store employees as a favor to customers were found in the neighborhood stores of drug chains and even in the national grocery chains that have a general policy of no delivery service.⁵⁵

The central offices exercise no detailed control over courtesy deliveries. The expense of wages is checked to see that these deliveries do not increase store expense. If the deliveries require the services of an additional employee, the store manager either decreases his delivery services or justifies the use of a delivery service and secures an approval for the service from the central office.

Department store chains, such as Block and Kuhl, Continental, Hahn, and Kobacher, include delivery service as an integral part of the operation of each retail store. Each store keeps its own accounting records, and the control of delivery service is secured through an audit of these accounts and through the detailed expense reports made to the central office.

The mail-order chains, at one time, priced their merchandise at the cash-and-carry price. For each store a contract was made with an outside delivery company. A customer could have the merchandise delivered by paying an additional amount equal to the delivery charge. Control of this system of delivery was secured by the fact that the amount received from customers for delivery equalled the amount paid the delivery company. At the present time, local delivery of certain merchandise, such as large furniture items, radios, and electrical refrigerators, is included as a service in the cash price. The control by the central office of delivery charges is through audits of accounts and reports pertaining to delivery and through a comparison of delivery costs among various stores of the chain. The same type of control is used for tire mounting,

⁵⁵ The national grocery chains deliver large orders of merchandise to institutions and, in some instances, give credit. The cash-and-carry policy is modified because of the large increase in sales that is thereby secured.

servicing radios, and for other items of merchandise that may require delivery or servicing after the sale.

It may be pointed out that the methods of control described above do not afford absolute accuracy or prevent theft through collusion. Control through evaluating results, however, limits theft to petty amounts and brings to the attention of the central office any situations which need detailed investigation. Meanwhile, any losses suffered by the chain will be less than the cost of a detailed supervision that would have prevented the losses in the first place.

The offering of credit was long considered a merchandising device which could not be used by chain stores because of lack of control by the central office. At the present time, however, many types of chains are offering credit and controlling it successfully. A few chains offer credit on open account,⁵⁶ rigorous standards for credit granting are set up, and insistence on prompt monthly settlements is required where the local manager allows the credit. In a chain such as Horder's, Inc., an office supply chain with the retail outlets closely clustered around the central office, open credit may be granted by the chain, with all credit records maintained at the central office. An index of names and credit limits is kept at each branch, with credit sales reported daily to the central credit department, which, in turn, keeps the stores' files up to date in regard to the various credit accounts carried by the company.

Most of the chains, however, find installment credit has been a great aid in giving adequate control of credits at the retail store.⁵⁷ It is being used in some instances where the usual form of transaction would be cash or open book account.⁵⁸ The greater control of installment credit over open account is secured by the more formal procedure in granting the credit

⁵⁶ Credit on open account was found only in local chains and in sectional dry goods and department store chains. "On-the-cuff" credit is given by store managers in many chains that do not formally grant credit. Such credit is given by managers of neighborhood stores in the grocery and drug chains.

⁵⁷ Installment credit was found in all chains selling specialty merchandise of high unit price except ready-to-wear.

⁵⁸ Thus the mail-order chains permit customers to combine the costs of certain small-value items and treat the total amount as one installment sale.

and in receiving the installment payments. The entire agreement is in writing, on a form supplied by the central merchandise office, and containing such protective provisions as the chain deems desirable. A copy of all agreements is kept in the central office, and any default in payment is instantly called to the attention of the central management, which can take the necessary steps to protect its investment.

The control of installation and maintenance service is secured in one of two ways. The units of department stores, and other chains with large retail units, may have their own installation and maintenance departments in each unit. Auditors from the central office, besides checking the records, compare the cost of operating this department in each store with the services it should render, as indicated by sales of merchandise requiring installation and maintenance service. An inter-store comparison of these statistics will reveal any department that is out of line in respect to operating costs. In chains with small outlets, the installation and maintenance service on items sold is frequently contracted for with local outside service agencies. Thus, in the smaller stores of both Sears, Roebuck and Company and Montgomery Ward and Company, tire mounting, installation, and free repair service for household appliances are contracted for with local agencies at a service charge approved by the central office. Here, as with the department stores mentioned above, any but petty thievery can be detected through a comparison of the relative service costs among the various stores.

A general control that discourages petty dishonesty among store managers without specific control is the profit incentive in the manager's contracts with the chain. Whenever store managers share in the net profit of their stores or receive a bonus for low operating costs, the great risk of detection and the small amount that can possibly be secured through manipulation of special service charges make such a practice unprofitable.

Chain stores are, in many instances, more liberal than independent stores in accepting merchandise returns from customers. The mail-order chains follow the same policy for store

returns as for mail-order returns.⁵⁹ This policy has caused considerable difficulty in cities such as Detroit, where the merchants' association has attempted to decrease the return of merchandise by having all important merchants agree to limit arbitrarily the return privilege. Although the return privilege is not advertised by other than the mail-order houses, the return privilege is given by all the national chains to customers who insist strongly enough on returning the merchandise.

CONCLUSIONS

Our study of the control of merchandising leads to the conclusion that the chain store can give the public most of the services which are offered by independent stores and can maintain an adequate control of these services from headquarters. The general form of control by the central office is through frequent evaluations of the detailed performance of each retail store. The control does not directly prevent mistakes and dishonesty in the retail store, but it does make certain that mistakes and fraud will be discovered before they result in serious losses. The fact that chains use evaluative control extensively, rather than check on detailed performance of specific tasks, accounts for the need for skilled and reliable store managers and for a policy of discharging immediately store managers who, it is found, cannot be relied upon to carry out the instructions from the central office without detailed supervision.

The chains with concentrated retail outlets are in a far better position to carry out detailed directive control than chains with scattered outlets. This form of control is carried out from branch offices in sectional and national chains and from headquarters in local chains. The fact that many local and some sectional chains that have expanded in the last few years have no detailed and systematic directive supervision from headquarters arises from the failure of the central office to change the organization to meet the requirements of managing an increased number of retail stores.

⁵⁹ A customer may return any merchandise purchased at the store, and the purchase price will be refunded.

The size of the retail outlets plays an important part in determining the extent of detailed supervision by the central office. Thus we find the department store chains exercising only a general evaluative control over the retail stores, while in the chains with smaller outlets a more detailed control is exercised. Even in a single chain, such as Sears, Roebuck and Company, we find only a general control over the department store units and a detailed daily supervision over the auto supply outlets. The size of the retail store apparently is important in determining the income that may be received by the store manager and, consequently, the managerial ability and experience that can be secured in the individual who manages the store.

The perishability of the merchandise handled by a chain determines, to a considerable extent, the need for a store manager to exercise his own judgment in making decisions in respect to merchandising within his own store. In order to avoid unnecessary losses, the store manager must act without waiting for orders of specific approval of his action from headquarters. The store manager is guided from headquarters only by the policies of the chain that apply to the merchandising problem at hand. Thus the managers of the retail units of the millinery chains and, in some cases, the managers responsible for fresh fruits, vegetables, and meats in the grocery chains must, at times, use their own judgment in merchandising these items.

The cost of control is a practical reason for using evaluative instead of directive control where evaluative control is feasible. Evaluative control avoids the cost of detailed supervision and secures most of its facts from detailed inventory and expense reports, which, of necessity, must be a part of a chain's operations if adequate inventory and financial control of the retail outlets is to be secured. Evaluative control operates more slowly than directive control, but any loss incurred by this delay is probably less than the increased cost of detailed directive control. For certain phases of merchandising, such as the preparation of special advertising and window and counter display materials, the economic advantages of specialization and

large-scale production may make it desirable for the central office to supply these materials to the retail stores and direct their use in detail.

In addition to the foregoing conditions that affect the control of merchandising, the nature of the retail market and changes in economic conditions are also important. Variation in the retail markets served by a chain is the fundamental reason for using the selective and co-operative basis in selecting merchandise for individual outlets. The decline in consumer buying power during the past four years has presented the problem to the chains of maintaining sales in their existing outlets at former levels. The answer is found, in part, in a policy that seeks to make each outlet conform more nearly to the requirements of its consumer market. Since the store manager is the individual in the organization who is best acquainted with the market of his store, this policy has resulted in an extension in the authority of the store manager in directing the merchandising activities. The possibilities for success of the policy have been enhanced by the curtailment of chain store expansion and widespread unemployment among experienced merchandising executives. These conditions have made it possible for chain stores to improve the quality of the store managers and to expect that these managers will need less detailed directive control. Finally, the policy has been favored because it decreases supervisory costs somewhat through increasing evaluative control and decreasing directive control from the central office. The extent to which evaluative or directive control is used in a given chain will depend largely on the conditions that have been considered in this chapter.

CHAPTER 3

CONTROL OF INVENTORY

The control of inventory in the various retail stores of a chain is exercised by the merchandise and financial divisions of the central office. These divisions determine the sizes of the inventories that are carried in the individual stores and the kinds of merchandise that are sold, and, to this end, a technique must be set up for securing pertinent information in regard to inventories and sales in each store of the chain. The financial division uses this information in determining stock shortages and the gross margins and net profits of the various stores. The merchandise division finds the information helpful in directing the merchandising activities of the chain. In this section we will consider the problems involved in using the various techniques which are employed to collect statistical information in regard to inventories, the ways in which this information is used by the central office, and what conditions determine the particular techniques that are employed by various types of chains.

TYPES OF INVENTORY CONTROL SYSTEMS

In approaching the problem of how to control merchandise inventory at the retail stores, it is desirable to outline the various inventory systems that are employed by chain stores and then note how the nature of the merchandise, size of chain, size of retail stores, and distance between stores affect the selection of the particular system used and the modifications that may be adopted to meet problems peculiar to a given chain.

There are two general classes of inventory control systems. The first class is designed primarily to secure facts for financial control and is subdivided into two types, commonly called the retail method of inventory control and the cost method of inventory control. The distinguishing characteristic of inven-

tory control systems which aid in financial control is the stressing of inventory values rather than inventory units. This, however, does not preclude their use as an aid in merchandising, and, as will be shown later, much information which is helpful in directing the merchandising activities of a chain may be secured through either the retail or the cost method of inventory control when the system is designed to secure the necessary information. The second class of inventory control systems is unit control. These systems are based on records of the purchase and sale of merchandise in physical units instead of in merchandise values. The units may be individual pieces of merchandise, or groups of identical merchandise or of merchandise possessing the same general characteristics. This type of inventory control cannot supplant the retail or cost systems for purposes of financial control, and it is important primarily as a method of securing facts in respect to the purchase and sale of individual items in the inventory, which facts, in turn, aid in directing the specific merchandise activities of the chain.

The various classes of inventory control are not mutually exclusive. The inventory control system of any one chain may combine retail, cost, and unit control, each type of control yielding specific information that is valuable to the financial and merchandising divisions of the chain.

The extent to which the cost and retail methods of inventory control are used by chain stores is indicated in Table 4. The extensive use of the retail method of inventory is indicated by the fact that fifty of the sixty-two chains studied employ this method either exclusively or in part. The cost method of inventory is found in twenty of the sixty-two chains. Thirteen of the sixty-two use the retail method of control for some divisions of the inventory and the cost method for others. Thus, four of the grocery chains use the retail method for the grocery division and the cost method for the meat division. In confectionery and restaurant chains, the candy department is controlled by the retail method and the soda fountain and restaurant departments by the cost method. Likewise, the drug chains, which use the retail method in most merchandise divisions, use the cost method at the soda fountain. The central

office has no choice, but must use the cost method of inventory control in the restaurant, soda fountain, and meat divisions of the retail stores. The scattered use of the cost method in the other types of chains indicates a preference by some chains for the low cost and simplicity of the cost method of control, or for the flexibility in pricing which it permits. Thus the cost method is frequently found in grocery, drug, and dry goods chains because it is the method preferred by the management. On the

TABLE 4—NUMBER OF CHAINS USING RETAIL AND COST METHODS OF INVENTORY CONTROL*

Type of Chain	Number of Chains	Chains Using Retail Method of Control	Chains Using Cost Method of Control	Chains Using Both Retail and Cost Methods of Control
Confectionery and restaurant	6	5	4	4
Men's clothing	5	4	1	---
Department store	6	6	---	---
Drug	8	3	5	3
Dry goods	7	6	1	---
Furniture	2	2	---	---
Electrical appliances	4	4	---	---
Grocery	6	4	5†	4
Hosiery	3	3	---	---
Men's furnishings	4	3	1	---
Millinery	2	2	2	2
Music	1	1	---	---
Office supplies	1	---	1	---
Shoes	2	2	---	---
Variety	2	2	---	---
Women's ready-to-wear	3	3	---	---
Total	62	50	20	13

* Chains in which all or the greater part of store inventories are controlled by this method.

† Meat division only in four chains.

other hand, the cost method is necessarily found in meat and restaurant chains because no satisfactory retail method has been devised to meet the merchandising conditions peculiar to their operation. While it is true that in one short-order restaurant

chain, White Tower, Inc., the retail method is used, its use is made possible only because certain types of bulk foods, such as meats, are subdivided into serving portions before they are delivered to the retail stores.

The implications that are involved in the use of the retail and cost methods, as shown in Table 4, are brought out in the consideration of the control problems arising from their use. It is this situation which makes necessary a consideration of the technique of the various inventory methods before their application to various types of chains may be analyzed.

RETAIL METHOD OF INVENTORY

When the retail method of inventory is used by chain stores, merchandise is charged to the various retail stores at its retail value. The central office, however, keeps a record of all merchandise received by each store at both cost and retail. Additional records are kept of all changes in the retail value of the merchandise at each store, and the central office is able, at any time, to determine from the central office records the retail value of the merchandise in any of its stores. The specific information which the central office secures to make this calculation is indicated on the following form, which would apply to the retail values received and disposed of by one store.

<i>Retail Inventory Summary</i>	<i>Store 12</i>
1. Inventory beginning period.....	\$3,000.00
2. Merchandise received during the period	8,000.00
3. Transfers from other stores.....	100.00
4. Additional mark-ups.....	200.00
Total.....	<u> </u> \$11,300
5. Sales for period.....	\$7,500.00
6. Transfers to other stores.....	300.00
7. Returned to warehouse.....	100.00
8. Mark-downs not offset by mark-down cancellations.....	400.00
9. Spoilage reported	<u>50.00</u>
Total.....	<u> </u> \$ 8,350
Book inventory at end of period.....	\$ 2,950

The book inventories at the beginning and end of the period are frequently corrected by a physical inventory of the merchandise in the retail store.¹

The merchandise received is the retail value of the merchandise received by the store, during the period, from the warehouse of the chain or directly from vendors. No problem arises if the merchandise is delivered from the chain's own warehouse, since the retail value of the merchandise delivered is recorded at the warehouse and reported to the accounting division in the central office. If, as is the case in the S. S. Kresge Company and F. W. Woolworth Company, the merchandise is received directly by the store from the vendor, the store manager reports the receipt of the merchandise to the central office. There the manager's report is checked for accuracy with the invoice received by the central office from the vendor, and is entered on the books. The same procedure is followed by chain grocery stores in handling some baked goods, yeast, meats, and coffee, which are frequently delivered directly to the retail stores of a chain by the vendors.

Transfers from other stores represent merchandise originally received at one store and then transferred, at its retail value, to another store for sale. Data on transfers are secured from transfer memos signed by the store managers or district supervisors making the transfers. Accuracy in accounting for these transfers is probable, for any mistake in the value of the merchandise transferred penalizes one of the two store managers involved.²

Additional mark-ups represent increases in the retail price of merchandise after it has been received by a store. The mark-up is ordered by the central office, and the store supervisor of the liaison division is responsible for the accuracy of

¹ In the larger grocery and drug chains, when the stores are concentrated territorially, the inventory is taken by special inventory crews from headquarters. In other chains or under other conditions, the inventory is taken by a special representative from headquarters or by the store supervisor with the assistance of some of the retail store employees.

² A grocery store supervisor pointed out that the two store managers involved in the transfer insure the accuracy of transfer memos. The one store manager will not acknowledge the removal of more merchandise than is removed, the other manager will not acknowledge the receipt of more merchandise than is received.

the amount of mark-up reported.⁸ This involves taking a physical inventory of the merchandise in stock on which a price increase is ordered. There is always the problem of intentional inaccuracy on the part of the store manager in reporting additional mark-ups. If the store manager marks up the merchandise but reports a smaller than actual inventory to the central office, an overage is created that reduces possible stock shortages. Where supervisors visit the stores daily, as is the case in most of the stores of the larger grocery chains, inaccuracy is prevented by having the supervisor check the inventories reported by the store manager. Where unit control is used, as in the Lerner stores, the records in the central office show the number of units in each store receiving the mark-up. In chains whose store managers are free from daily supervision and unit control, the central office can check accuracy on additional mark-ups through occasional audits that will reveal any systematic deception on the part of the store manager. Thus, in the S. S. Kresge Company, the store supervisor, on occasional visits to a store, systematically checks prices for accuracy and also quantities of recently marked-up merchandise.

The sum of the above items gives the total retail value for which a store manager is responsible. During the period, however, some merchandise values have been converted into money values, and the money has been transferred to the central office. This process accounts for a large decrease in the value of the merchandise and the money for which a store manager may be held responsible. A discussion of the problem of how the central office checks the accuracy of the sales reported by the store managers is reserved for the section on the Control of Finances.

Other decreases in value at the store may be caused by transfers of merchandise to other stores. These transfers are contra to the transfers from other stores and are subject to the same control which has previously been considered.

⁸ In chains, such as grocery chains, where a supervisor visits the stores daily, he is responsible for the accuracy of the mark-up reports. Otherwise the control of mark-ups rests with the store manager together with occasional checks by the supervisor or inspectors from the central office. The same types of control are used for reports of mark-downs and spoilage.

Merchandise returned to warehouse is recorded from warehouse receipts. Mark-downs and mark-down cancellations are taken at the order of the central office or supervisor, and, as with additional mark-ups, physical inventories of the merchandise involved are taken by the store manager or supervisor at the time the mark-downs are ordered. The amount of the change at its retail value, or the number of units involved, is reported to the central office. The same methods that assure accuracy in reporting additional mark-ups are used.

The retail value of spoilage in any store, likewise, comes under the supervision of the liaison division and is reported to the central office. The problem of verifying spoilage in the retail stores may be handled in one of two ways. When supervisors are in the stores daily, as is the case for most of the outlets of the larger grocery chains, the supervisors inspect the spoiled merchandise and approve the quantities and values entered in the spoilage report. When supervisors are in less frequent contact with individual stores, as in the variety chains, the reports of the store managers are accepted by the central office without direct verification. An indirect check is secured, however, through a comparison of the amounts of spoilage reported from the various stores.

If from the sum of all recorded retail values received by the store are deducted all recorded retail values given up by the store, the difference is the retail value which remains in the store and for which the store manager is responsible. Any abnormal difference between this figure and the actual value on hand, as determined by a physical inventory, indicates incompleteness or inaccuracy of records or a loss of merchandise or money at the retail store. The importance of having a close approximation between book and physical inventory is indicated by the policy of the larger grocery chains to discharge any store manager whose stock shortages exceed a reasonable amount, since such shortages indicate either managerial inefficiency or dishonesty.⁴

⁴ On the other hand, several managers of stores have stated in confidence that the rigid requirements in respect to stock shortages make unethical practices practically necessary in selling to the public. A field investigation by the Federal

COST METHOD OF RETAIL INVENTORY CONTROL

The conditions which have been described above have prevented two of the large grocery chains from using the retail method of inventory in its entirety. The foregoing conditions would apply, as well, to drug and other chains which handle many small items with varying gross margins. The retail method of inventory is valuable in determining stock shortage, in keeping a constant record of the retail value of merchandise in the retail outlets, and in approximating the gross margin and net profit of a store when physical inventories at cost are not available. It is a satisfactory inventory control for most of the stores in a chain.

In the Great Atlantic and Pacific Tea Company and the National Tea Company the cost method of retail inventory is applied to the inventories of specific stores for which absolute accuracy is desired in the calculation of gross margin. All inaccuracy of the retail method is avoided by taking the inventory in physical units, to which are applied the current cost prices. The result is an inventory value which is accurate and which may be used in calculating an accurate gross margin. The value of the absolute accuracy is important only when successive inventories are taken at frequent intervals and the gross margins calculated.

The inventory team, in taking an inventory at a retail store, enters only the number of the various items on the inventory form. This record is then sent to the divisional or branch office, where the values of inventory and gross margin are calculated. If the inventory is from a store that apparently is operating satisfactorily and if it is not for the opening or closing of a fiscal period, the time and cost of calculating inventory values may be minimized by using the retail method of inventory. On the other hand, if the inventory is from a store that is under detailed scrutiny from the central office, the cost method of

Trade Commission showed that short weights and measures were common in the chain grocery stores of four large cities. (*Chain Stores: Short Weighing and Over Weighing in Chain and Independent Grocery Stores* [Washington: United States Government Printing Office, 1933], Senate Document No. 153 [72nd Congress, 2nd Session].)

retail inventory is used in order to determine gross margin and net profit. The central office then has absolutely accurate information for directing the store's further operations.

THE COST METHOD OF INVENTORY CONTROL

It is shown in Table 4 that twenty-one of the sixty-two chains use the cost method of inventory control. In the dry goods, men's clothing, drug, grocery, and men's furnishings groups, some of the chains use the cost method because it is preferred by their chief executives.⁵ In other chains using the cost method, various conditions exist which make it impossible to maintain accurate control over the inventories of the retail stores by the retail method. Horder's, Inc., an office supply chain, prices its merchandise to the public with a wide range of quantity discounts, and there is no definite retail price on which to compute accurately the retail value of the merchandise. In this chain the sale price of small items such as pen points or paper may vary several hundred per cent, the amount of variation depending on whether a customer buys the merchandise in single units or in large amounts. The basic cost of making a sale, regardless of its size, justifies this large range in retail prices for the same product, and necessarily a plan of inventory control must be used which will allow for these variations. In the meat, restaurant, and millinery chains, much of the merchandise is delivered to the retail store in a semi-processed condition, and its retail value may vary considerably according to the skill and success with which the processing is completed in the retail store.

The cost method, in its original form, requires only a record of the cost value of the opening and closing inventories, the cost of merchandise received by the store, and net sales for the period. The opening inventory plus merchandise received and minus the closing inventory is the amount of merchandise which has disappeared from stock and which is considered as the cost of sales. Net sales minus the cost of sales is the gross

⁵ The reasons advanced for the cost instead of the retail method of inventory control were lower cost of operation, greater flexibility in merchandising, and the fact that the cost method had been satisfactory.

margin for the period, and this is used as one of the basic figures in determining the profit or loss for the store. The cost method of inventory control, without a physical inventory, does not give the central office accurate information in regard to gross margins or size of inventory at a retail store. Consequently the taking of a physical inventory is a weekly or monthly occurrence in some chains using the cost method. Among the drug chains, however, an addition to the cost method of inventory is used which makes frequent physical inventories unnecessary to determine whether a store is maintaining its inventory and is securing approximately the gross margin that is expected. This method, used by the Peck Drug Company and Cunningham Drug Company, is as follows: At frequent intervals throughout a regular inventory period, the cost of sales of a store is estimated by multiplying net sales by the complement of the planned percentage of gross margin. The estimated cost of sales is subtracted from the opening inventory plus additions during the period to determine the estimated value of the store's physical inventory. As long as the estimated value of the inventory of the store remains at approximately the value desired by the central office, no special survey of the store's inventory is made during the regular inventory period.

If the estimated value of the store's inventory has an unexplained upward trend, one or more of three conditions probably exists. Either the actual gross margin is less than the planned gross margin, the store is stocked with an increasing amount of slow-selling merchandise, or a large stock shortage exists. The rise in the estimated value of the inventory is a danger signal. A special survey of the store is made to determine the cause of the rise in the value of its inventory. The central office is then in a position to take immediate steps to correct the situation.

If the estimated value of the store's inventory has an unexplained downward trend, it is probable that the store manager either is not carrying as large a stock as is expected by the central office or is not making accurate reports. Here, again, a special survey is made to determine the cause of the decrease in the estimated value of the store inventory and to decide what action will be taken.

It has already been mentioned that in meat shops the retail method of inventory cannot be used for all items because it is impossible to predetermine the retail sales value of bulk meat. In the meat divisions of the Great Atlantic and Pacific Tea Company and the Kroger Grocery and Baking Company, the meat is charged to the stores at cost and delivered in bulk. Retail prices of the various cuts of meat are established at the central office. The meat-cutter at the retail store is expected to prepare the meat for sale in such a way as to secure the largest possible amounts of the higher-priced cuts. The central office controls the sales operation by demanding a certain gross margin from each store. Complete inventories of merchandise are taken at least weekly in each store, and, since sales are known, it is possible to calculate the exact current gross margin which each store secures. The constant check on the gross margin immediately brings to the attention of the central office any outlet which is being ineffectively managed. If the gross margin in an outlet is unsatisfactory, the merchandising division of the chain is called upon to determine the cause and make the necessary changes which will improve the margin. The store inspections by the district supervisor of the meat department are expected to detect poor judgment on the part of the manager of the store in ordering meats and lack of skill in cutting.

This method of control is not entirely satisfactory. The gross margin will vary because of differences in the skill of meat-cutters and because of variations in the retail price for a given quantity of meat, depending upon its condition when sold to the customer. For example, bulk meats, such as bacon, will sell for less in a slab than in a sliced condition. With these two variables existing in the retail store, it is not possible to evaluate the skill of a meat-cutter from the financial figures on inventory.

It would be possible to determine specifically why a certain gross margin is secured by a meat outlet if the following steps were taken:

- (1) If the retail method of inventory were used for all meats which were sold at a fixed price and without further processing at the retail store.

(2) If the quantity sold and the price of all meats not included under (1) were recorded in the meat department at time of sale.

(3) If a record were kept of all waste in a department.

If these three variables were known, then the outstanding variable which would remain would be the skill in cutting and the salesmanship of the members of the meat department of the retail store. The amount of sales and gross margin for the above classifications of meat sales would enable the central office to determine rather closely why the total gross margin is what it is. While it is probable that the records required and the calculations necessary for these classifications of gross margin would be too great for general and continual use, the method could be used in analyzing the gross margin of a store whenever the analysis was desired.

Where chains, such as millinery, do not set retail prices for the retail stores, the control of inventory must rest almost entirely on gross margin in judging the ability of the store managers and detecting inventory shortages. Millinery chains which manufacture or assemble hats in the retail stores can neither set the retail prices at which a given hat will sell nor determine the number of hats which may be completed from the semi-manufactured materials delivered to the retail stores. The taking of frequent inventories in the stores and the record of each store's sales are, however, a basis for calculation of gross margin, which is the measure of the skill with which a given store is managed.

The Eisendrath and Consolidated millinery chains operate their stores as leased departments in other stores. The sales of these stores are subject to the same financial control by department store executives as every other department in the store. This gives the central office a detailed control over the sales of the outlets. In addition, the department managers make daily reports of sales by items and also frequent reports of the inventories of accessories used in remodeling hats.

In restaurant chains, such as Sanders and White Tower, the control of food inventory is secured through a day-to-day check of the ratio of food deliveries to each store to the store's

sales. In addition, service shopping detects the store manager who attempts to conceal other shortcomings by serving customers too small portions of food.

All the methods of inventory control that have been considered up to this point—retail inventory method, cost method of retail inventory, and cost method of inventory—treat inventories as values. Their primary purpose is to secure financial control over the inventory of each retail store.

Financial statistics, however, do not supply most chains with all the detailed statistical information that is desired by the merchandising division. Consequently, the financial control may be supplemented by special controls which will systematically reveal, in units of merchandise, the number of units in stock and sold in the various stores. Although the controls used in any chain will probably differ in detail in their mechanical operation, most systematic control methods of physical units of merchandise may be identified as some form of unit control, which may be subdivided into item, requisition, or tickler control. The extent to which these control systems are used is shown in Table 5. It may be noted that many chains use more than one of these control methods. The reason is that, when a chain handles a variety of merchandise, different control systems are preferred for the different types. Thus, in a department store, the management may use item control for furniture, tickler control for gloves, and requisition control for electrical appliances.

Personal observation and the use of tallies by salespersons for recording sales are control methods that are found in all chains and are not listed in Table 5. They differ, however, in that personal observation is a continuous and vital form of control while tally control is used only when and as needed.

UNIT CONTROL

Any method that supplies the management of a chain with a record of the inventory and sales of the units of physical merchandise in each store is some form of unit control. A separate record may be kept for each merchandise unit if the unit value is large and no two units are alike. This method occurs in part

of the inventory of furniture and wearing apparel chains. Identical units may be grouped on the same record when no valuable information would be secured in ascertaining the particular unit in stock or sold. This type of record is satisfactory for shoe and hosiery chains. Similar as well as identical units may be grouped on the same record for merchandise of small unit value. Thus, in a men's furnishing chain, the stock of men's shirts may be grouped according to style and retail price, and all sizes in the same style and price classification will be entered on the same record; or all shirts of the same price may be

TABLE 5—SPECIAL MERCHANDISE CONTROLS USED BY VARIOUS TYPES OF CHAINS

Type of Chain	Number of Chains	Item Control	Requisition Control	Tickler Control
Confectionery and restaurant	6	---	---	6
Men's clothing	5	1	4	---
Department store	6	4	4	5
Drug	8	---	5	8*
Dry goods	7	---	5	---
Furniture	2	2	---	---
Electrical appliances	4	2	---	---
Grocery	6	---	---	5†
Hosiery	3	---	3	---
Men's furnishings	4	1	3	---
Millinery	2	---	---	2
Music	1	1	1	---
Office supplies	1	---	---	1
Shoes	2	1	1	---
Variety	2	---	2	---
Women's ready-to-wear	3	2	1	1
Total	62	14	29	28

* Soda fountain.

† Meat.

placed in one group, regardless of variations in style and size. Current information in regard to the inventory of merchandise within a group can be secured by a detailed physical inventory with the units classified according to style and price. The sales volume of identical units within the group can be determined by subtracting from the number of identical units handled during an inventory period, the number of the units on hand at the close of the period. The additional data which are

needed for this calculation are secured from the inventory records in the central office.

In the operation of unit control, a separate record is used for each unit classification of merchandise. When merchandise is received by a store, the invoice, transfer memo, or other record is routed through the unit control division, where the necessary information is entered on the unit control records. When merchandise is disposed of by the store, the same procedure is followed for the sales slip or other record that indicates the kind and number of items that have been removed from the inventory. For any classification, at any time, the units sold and the units in stock can be quickly calculated.

The facts that can be secured through unit control are valuable for many phases of merchandising. Unit control may be used as an automatic plan of notifying the purchasing department whenever the inventory of an item reaches a certain minimum, and orders for additional units can be placed in time to avoid a shortage of the item in the retail stores. Unit control may be used, also, to localize margins, mark-downs, and stock shortages in the various stores to the various items of merchandise. Data from unit control records may be used to compare current inventories and sales of the various stores, and so reveal outstanding successes and failures in merchandising any item. The reasons for the successes may be determined, and procedures devised for improving the merchandising in the poorer stores. Data from the unit control records may be used as the basis for securing model stocks and determining the best price lines. The data may be used for purposes of comparing the day-to-day and week-to-week sales of an item over a considerable period of time. Frequently this comparison will reveal a sales trend. Immediate steps can be taken to expand or contract the inventory in line with the trend, and in this way mark-downs are avoided on items with decreasing sales and an out-of-stock condition prevented on items with increasing sales. Over a period of several years, the exact nature of the seasonal trends of many items may be determined. The information is also useful in adjusting the size of the inventory of an item in anticipation of seasonal changes in sales.

It is apparent, from the foregoing, that unit control provides information which is essential for directing properly the merchandising activities of a chain. In comparison with other methods of securing similar merchandising information, unit control has the advantages of timeliness and convenience in having all basic information on hand in the central office at all times. If information is required in regard to the inventory or sales of any item in any store, the unit control records will supply the information at once.

The disadvantages of unit control are its cost and the fact that, for some types of merchandise, it is practically impossible to secure the information which must be entered on the unit control records. Unit control is a relatively expensive form of control because of the detailed completeness of the records which it requires. At least one entry is made in the unit control records for each item sold by a chain. These detailed records contain literally thousands of entries which are not important to the merchandising division, and frequently obvious information of importance is overlooked by the merchandising executives, who are lost in the vast number of figures or who fail to refer to the unit control in making an important decision. The result is that unit control becomes largely "red tape" and, as such, is an unnecessary expense to the chain.

All costs of the unit control must be allocated as merchandising expense. Accordingly, the total costs of unit control stand out as an individual item of expense, and, unless the results obtained make the cost worth while in the eyes of the management, a unit control system will not be continued by a chain. A unit control system may be easily discarded; its discontinuance does not interfere with the financial control over merchandise inventories since the unit control records are kept in addition to the financial records of inventory.

Unit control is relatively inexpensive when the unit value of the merchandise is large; also, a large value for a unit of merchandise makes detailed information in regard to it more important to the merchandising division. Consequently unit control is most likely to be used for items of considerable value.

In many chains it is a practical impossibility to secure the information which must be entered on the unit control records. Information in regard to sales can be secured only from detailed sales slips made out by the salesman, or from special unit control tabs detached from the merchandise at the time of sale, or from a special detailed sales report by the store manager. It is obvious that in grocery, drug, variety, and other chains handling merchandise of low unit value, the speed with which sales transactions must necessarily be made precludes the possibility of sales slips or of a daily itemized sales report from each store. Consequently, the physical requirements as well as the expense of unit control make its use impractical in the merchandising of units of small value.

The conclusions that have been reached in regard to unit control are verified by the types of chains using it, as shown in Table 5. In all the chains, except men's furnishings, unit control is used for items of considerable unit value. Chains such as department stores and women's ready-to-wear may use unit control for the items of high value and some other form of control for items of low value.

The inventory control method of Lerner stores, a women's ready-to-wear and accessory chain, enables its central office executives to merchandise the retail outlets through item control in the New York office. The store managers report daily the stock or item number of each piece of merchandise sold. On the basis of this information the merchandising division in the central office replenishes the inventory in each store and orders mark-downs and the return of merchandise to the central office.

The women's ready-to-wear departments of Montgomery Ward and Company Class B stores are also merchandised in the same way as the Lerner stores, the only difference being in an automatic mark-down system which enables a store manager to take mark-downs without a special order from headquarters. The mark-down system requires the store manager to mark down, to the next lower price line, each dress or coat after every fourteen days it has been in stock.

The merchandising division must have information in regard to the sales volume and inventories of various types of

merchandise in order to guide its buying and sales promotional activities. Consequently, when unit control is impractical because of expense, inability to secure adequate sales records, or the attitude of the merchandising executives, other methods of securing the information must be employed. These methods, listed in order of the expense of operation, are (1) personal observation, (2) tally records of the sales of special items, and (3) analysis of delivery, transfer, and inventory records.

REQUISITION CONTROL

The limitations of item control have resulted in a wide use of the analysis of delivery and transfer records to determine the number of units of an item that have been handled by each of the retail stores. If physical inventories by units are available, it is possible to determine the number of units on hand and the number sold between inventory periods. Thus, the same information is supplied as in unit control except that the period of time considered is, perhaps, one to two months instead of one day or one week, the information can be no later than the date of the last physical inventory, and stock shortage by units cannot be determined. This may be illustrated by the following: The opening inventory of July 1 is 10 units. Total deliveries are 55 and the closing inventory is 5. From these figures the following calculation is made:

July 1	Opening inventory.....	10
	Deliveries	
	July 5	25
	July 18	<u>30</u>
		55
	Total units handled.....	65
July 31	Closing inventory.....	<u>5</u>
	Units sold during July.....	60

These figures show that, during July, sixty units were sold but do not give the sales by days or weeks which would be available under unit control. Furthermore, they give no information in regard to sales in units after July 31, and such information will not be available until another physical inventory is taken.

Requisition control is found to be the chief inventory control method of such chains as Montgomery Ward and Company, Sears, Roebuck and Company, S. S. Kresge Company, F. W. Woolworth Company, the Great Atlantic and Pacific Tea Company, and the Kroger Grocery and Baking Company. The heart of requisition control is the check list, which is an itemized list of all items that the store manager may order through the central office. In the grocery chains, the procedure is simplified by the practice of having the store manager look over his stock, item by item, and then enter on the list the amount of each item that he needs to replenish his stock. The check list itself is then used as a requisition and sent to the central office.

In the mail-order and variety chains, the system is more complicated. The check list is used in surveying the inventory, item by item. If there appears to be a sufficiency of any item, a check mark is placed after the item. If it appears desirable to reorder, the quantity in stock is entered after the item. In the store office, the quantities on the check list are entered on the stock books. The store manager, from the stock book, can then determine the amount sold since the last inventory. On the basis of this information, the stock now on hand and on order, and his own judgment, the manager makes out an order for additional merchandise.

OTHER METHODS OF INVENTORY CONTROL

Among the other methods of inventory control, the tickler system, the tally system, and personal observation are the most important. Tickler control is the same as requisition control except that the taking of frequent periodic physical inventories in the stores is a part of the routine control. Consequently, it is found in chains handling highly perishable merchandise. Table 5 indicates its extensive use in the confectionery and restaurant chains, the soda fountain department of drug chains, and the meat division of grocery chains.

Personal observation, as a method, implies the use of no special inventory records or analyses for purposes of merchandise control. The merchandising executives, in the routine performance of their duties, observe the flow of merchandise

through the retail store and, from such observations and the financial inventory and sales records, determine the sales characteristics of each item and plan the merchandising program accordingly. Many small chains are able to operate with a fair degree of success by this method.

The combined observations of salespeople, store managers, supervisors, and central office executives frequently lead to the same executive decisions as would have been reached from information secured by unit control. However, the decisions reached by general observation, alone, lack the sureness of decisions reached by observation which is supported by exact facts supplied by some such plan as unit control. Consequently, observation as a basis for decisions in regard to merchandising is usually accompanied by some fact-finding plan which will verify the correctness of the decisions.

The least expensive of the various formal control methods is the tally system, which requires salespeople, in recording sales, to enter a tally on a special form each time a sale of a certain item is made.⁶ The tally system is under the immediate supervision of the store managers and gives exact information in regard to the sales of each item by stores during the period in which the tally record is kept. The tally system is not so ponderous as unit control. It is used only when and as the information is needed by the store managers or merchandising executives in the central office to determine or verify facts on which a decision is to be based. The tally system has several limitations. In the first place, it is difficult, if not impossible, to use on all items, at the same time, in stores selling hundreds of different items. In actual practice, the tally can be used for making tests of sales on only a few items at a time. In the second place, usually several days are required for a tally record to accumulate adequate information in regard to sales. Unless the need for the information has been foreseen and plans have been made for securing it, the information contained in the tallies may not be available at the time it is needed.

⁶ Tally control was used on certain occasions by all variety, grocery, and drug chains.

CONCLUSION

Every chain exercises a financial control over merchandise inventories by means of either the retail or the cost method of control. Except for some small chains and almost all drug chains, the retail method is used whenever merchandising operations permit this form of control. Some chains handle merchandise that requires a processing operation at the retail store, and this prevents the use of the retail method. In other chains, a scale of quantity discounts on retail purchases or day-to-day changes in retail prices may make the retail method undesirable. Small, loosely organized local chains may prefer the lower cost of using the cost method of inventory control and depend upon the detailed daily supervision of the liaison division to supply any additional information that may be necessary.

Although the retail and cost methods of inventory control are both primarily financial controls, they yield much valuable information for the merchandising divisions of the chain. The merchandising divisions, however, find it necessary to employ additional control methods in order to secure all the information necessary for purposes of intelligent merchandising.

The additional control may take the form of financial control through classification, partial classification, or individual item analysis applied to small subdivisions of merchandise. More frequently, the additional control is secured through a record for the various retail outlets of the number of physical units in stock at the end of a given period and the number sold during that period. Controls of this type may be classified, according to their methods of operation, as unit, requisition, tickler, or tally control.

The importance of the advantages of unit control depends primarily upon the nature of the merchandise over which unit control is exercised. If fashion, seasonal conditions, or rapid physical deterioration of merchandise makes current information in regard to the sales and inventories essential for profitable operation, some form of unit control is necessary. In ready-to-wear chains, rapidly changing fashions make either a

daily inventory or unit control necessary to prevent heavy inventories of merchandise that is losing public favor.

The question of whether unit control is desirable depends, also, upon the value of the unit of sale. The expense of unit control becomes relatively less as the value of the unit of sale increases. Thus a jewelry, furniture, or shoe chain may use unit control because the large value of each unit makes unit control less expensive than any of its substitutes. On the other hand, for variety, grocery, and drug chains, the low value of the unit of sale makes frequent inventories and an analysis of delivery and transfer records more desirable for inventory control than the unit method. This method is usually some form of requisition or tickler control. It is less expensive than unit control for items of small unit value and supplies, in most instances, all the necessary information. The tally system can be used to supplement the usual control without interfering with it, and, therefore, unit control may be exercised over a small part of the inventory in a store for any short period of time.

Finally, the use of inventory control for merchandising purposes depends, to a large extent, upon the executive personnel of the chain. Control is valuable only when it is skillfully used. The chain store executive may be quite arbitrary in regard to, first, what facts will be secured through organized control, second, the manner in which the facts will be secured, and, third, the uses which may be made of these facts. Consequently, after financial control is secured through the retail or cost method of inventory, the additional merchandising control of inventory depends on the nature of the merchandise and, in the details of operation, on rather arbitrary decisions of the major executives of the chains involved.

CHAPTER 4

CONTROL OF FINANCES

The central office of every chain store organization assumes all responsibility for financing the operations of the chain. Control of finances at the individual retail stores is provided to secure an accounting for all money received from sales and for all expenses incurred by store employees. Extreme strictness in financial control is limited, however, by the fact that control must not handicap unduly the merchandising activities of the chain.

The income from the sales of merchandise is necessarily an important part of inventory control. It has already been pointed out in the control of merchandising and inventory that each retail store is held responsible for the merchandise received, either as merchandise or as money or accounts receivable. Every chain uses either the retail or the cost method of inventory control. If the retail method is used, the book value of the merchandise at a retail store is calculated by deducting from the total value of merchandise received by the store all recorded values which have been disposed of through sales, mark-downs, transfers, or other methods. The difference should be approximately the same as the value of the physical merchandise at the store at the end of the period for which the calculations are made.

In a less precise manner, the cost method of inventory control may reveal the disappearance of values in the retail store for which no accounting has been made. The value of the merchandise in a store may be estimated by subtracting from the total cost of the merchandise delivered to the store the estimated cost of merchandise sold or transferred. A comparison of the value of the estimated inventory, as calculated, with the value of the physical inventory will reveal any large discrepancy that may exist between the two inventory values.

Here, as with the retail method of inventory, a large difference may be caused by dishonesty or by mismanagement at the retail stores.

Of the chains included in the survey, all those that sell merchandise for cash only exercise routine control over store finances through regular reports from the stores and through supervision by the liaison division of the chains. The routine reports include all the reports involved in operating a retail or cost method of inventory control. In addition, reports of any expenses incurred at the retail store or of any payments made by the store manager from the cash receipts have to be made to the financial division. Of the chains surveyed, those that sell all or part of their merchandise for credit have, in addition to the financial controls used by cash chains, some form of direct control of credit sales by the financial divisions of the chains.

THE BANKING PROCESS

The methods of handling the receipts from the sales of merchandise, after the sales are completed, vary widely in different chains. Chain stores, however, have this procedure in common: Someone, usually the store manager, makes up daily for the central office a sales report which gives a summary of the detailed sales operations for the day.¹ The summary report must agree with the detailed sales records, and both must agree with the sum of cash receipts and accounts receivable for the day. In the National Tea Company, the supervisor, in his cash audit of a store, checks the cash on hand, the store manager's report, and the cash register reading, all of which must agree. The supervisor then leaves a portion of the cash in the store as till money and gives the store manager a receipt for the balance, which the supervisor takes with him and deposits in a bank.

¹ In the Atlas radio chain, the summary reports run from twelve noon of one day until twelve noon of the next. The reason for this is that many sales are made in the evening, and the noon-to-noon schedule makes the evening sales more quickly available to the central office.

In grocery chains, which have many stores located in the same markets, the store supervisor of the liaison division usually receives the funds and sales reports from the store managers.² The supervisor compares the two to be certain that no clerical mistake has been made. The funds are deposited in a local bank, and the sales reports and deposit records are turned over daily to the central office. In these same chains, however, the store managers of scattered country stores make their own deposits. The store supervisor audits the cash records in these stores through a comparison of the cash register readings, amount of till money on hand, and the store manager's deposit book.

In the variety, dry goods, shoe, and other chains with scattered outlets, the store managers deposit daily the cash received from store operations and forward deposit slips and sales reports to the central office. Depository bank accounts are uniformly in the name of the chain, and withdrawal from the accounts can be made only by an authorized official of the central office.³ In this way the cash receipts from sales pass from the control of the store manager to the central office. The central office finally transfers the funds from the numerous depository accounts to a few banks convenient to the central office, on which drafts are drawn in payment of the operating expenses of the chain.⁴

CREDIT SALES

The control of finances at the retail stores of some chains is complicated by the use of credit sales. The problems of financial control involved in credit sales are, first, the selection of credit risks and determination of credit limits, and, second, the auditing of the accounts receivable reported by the retail store

² This procedure may be varied. If more convenient, the store manager may deposit the receipts from sales. Both methods are used by the National Tea Company in Chicago.

³ An exception must be noted for some department stores whose store managers draw checks on bank deposits for expenses arising in their stores.

⁴ According to C. B. Hazlewood, many local depository banks claim that they incur a loss in handling the deposits of the local retail stores of a chain. Only a minimum balance is maintained in the depository banks, and all surplus funds are transferred daily to the banks with which the chain maintains regular checking accounts. (*Chain Store Age*, V, 11 [1929], p. 43.)

managers. The first problem is the intelligent granting of credit at the retail store; the second is the prevention of fraud at the retail store through the manipulation of accounts receivable. Most chain stores do not make credit sales,⁵ for the difficulties of such sales more than offset the merchandising advantages derived from their use. There are, however, some types of merchandise, such as furniture and radios, which are so customarily sold on credit that it is desirable for chain stores, in these fields, to make credit sales. If price competition among chains becomes more severe in the future, more chains may find it advisable to avoid a direct price comparison with competitors by offering credit service to customers.

Local chains may control the granting of credit at the retail stores by having all applications for credit approved by the central office.⁶ In Horder's, Inc., the procedure is for the retail store manager to secure the formal written application for credit on an appropriate form. The application is sent to the central office for approval, and credit is withheld until the central office approval is secured. If a credit account is opened by an individual at one store, his previous application for credit and his credit record make it an easy and convenient process to secure credit at the other stores of the chain.

When the retail stores are scattered, the credit procedure described above requires considerable time and is often not convenient for the prospective customer. Credit can be granted more quickly, especially for small amounts, if the procedure is handled entirely at the individual stores.⁷ When the Browning-King chain, with its scattered outlets, was in operation, store managers made credit sales and were responsible for passing upon the credit applications of their customers. The managers of the stores of Grinnell Brothers also handle credit for their own stores. When open credit is given by department store

⁵ Twenty of the sixty-two chains in the survey sold on credit. All the department store chains sold on credit. Most of the remaining credit chains were similar in that they handled staple specialty merchandise of high unit price.

⁶ The convenience and speed of communication between the retail outlets and the central office of a local chain make credit granting as workable in a local chain as in an independent store.

⁷ Credit for large amounts may require a more detailed investigation, which can be performed more quickly by the store manager, co-operating with the central office.

chains, the granting of credit is a function performed in the local stores.

A chain with both concentrated groups of stores and scattered stores may use two procedures. For instance, in the Walkover Shoe chain, credit granting is done by the branch office for the Chicago stores, while the manager of the Gary, Indiana, store handles credit granting in his own store.

If credit is granted by the store manager, certain limits may be placed on him. The previous credit experience of each chain probably determines the exact kind and size of credit standards which are used. The store managers of Browning-King used the reports of the local credit bureaus, with particular emphasis on the credit experiences of other stores with the applicant for credit. In the Ann Arbor store, a limit was placed on the amount of credit which was extended to one individual. Only a certain per cent of the store's sales could be credit sales, and a manager was not permitted to extend additional credit if the amount in overdue accounts reached a certain limit. In addition, no one was granted credit who was not regularly employed, or could not give satisfactory bank references, or did not live in the locality of the store.⁸

Some of the cash chains, including the Great Atlantic and Pacific Tea Company and the Kroger Grocery and Baking Company, overlook a small amount of informal credit granting that is carried on by the store managers. The credit is usually granted for a period ranging from one day to a week and is a personal contract between the debtor and the store manager. If the debtor does not pay for the merchandise, the store manager must make up the loss or his stock shortage is increased. The store manager, likewise, must usually bear any loss which may occur from cashing checks. The manager may be permitted to accept pay-roll checks or personal checks for the amount of the merchandise purchased. In no chain does the central office encourage store managers to accept or cash more checks than are necessary for effective merchandising.⁹

⁸ Before the Browning-King chain went into bankruptcy the central office found it necessary to eliminate credit selling for financial reasons.

⁹ Besides losses from bad checks, the central office objected to the bother and cost of collecting on dishonored checks that would later be paid by the issuer.

The chief difficulty in controlling credit sales is apparently the expense of granting credit on a sound basis and not the trouble involved in controlling the depositing of cash received from credit sales. Nothing was found in the stores included in the survey or in the credit procedure of chains described in the *Chain Store Age* which would indicate a problem in handling payments on credit sales. Each day or week the store manager reports his cash and credit sales separately. The report of the cash sales is verified by a bank deposit receipt. The cash received from credit sales can be closely verified by the central office, since credit sales of a given date are converted into cash by the end of a period which is set by the credit contract. At the end of the period, the amount of cash deposited on account of the credit sales should equal the credit sales. If the cash deposited is less, it is probable either that some of the accounts are delinquent or that the store manager has withheld some of the cash received. In either case, a credit representative from the central office, through his attempts to collect from the customers who are reported as delinquent, will quickly check on the store manager.¹⁰ Consequently, the misappropriation of funds by a store manager through failure to report collections

¹⁰ The credit methods of the Shaffer Stores Company, a local chain in Altoona, Pennsylvania, give successful control over credit with most of the book-keeping done in the retail stores. The method is as follows:

"Credit is extended for a period of 15 days only, coinciding with the payroll periods. In opening an account a customer applies at a store for credit. The manager sends the request to our credit department at headquarters. . . . Unnecessary book work at headquarters is eliminated by having every store manager keep the records of his charges until bills are paid or become delinquent. Lists of all collections on account made during a day are sent to headquarters every night. . . . Two days after the 15-day period every manager makes a list of his delinquent accounts. . . . The manager is expected to take out time to call at the homes of the charge customers who are in arrears. In a majority of cases this call is sufficient to evoke a response in the form of payment in full.

"If unable to collect during this call, the manager sends his report to headquarters. Credit is stopped automatically and the manager's responsibility ends as far as that account is concerned.

"Upon receiving the manager's report a headquarter's collector calls on the delinquent account. He is able usually to get payment where the manager, who is better known to the customer, failed. If the collector fails, the account is turned over to the local credit bureau which usually gets results." (G. G. Shaffer, "Our Credit Prices Meet Cash Competition," *Chain Store Age*, groc. ed., VII, 1 [1931], p. 6.)

is limited to a short period of time and is certain to be discovered by a central office exercising ordinary vigilance.

Besides having sales promotional value, the use of installment selling has been an important aid to the central office in controlling credit at retail stores not contiguous to the central office. The formality of the installment contract, which prescribes the definite time and amount of payments, enables the central office to know exactly the receipts which may be expected from installment contracts at any time. The legal clauses in the installment contract also make such contracts safer for a chain than book credit, in dealing with customers of questionable credit standing. The method of handling installment sales is illustrated by the practice of the Atlas radio chain and the Hartman company. Installment sales contracts are made out in triplicate; one copy is given to the customer, one retained by the retail store, and one forwarded to the central office. In the case of the Hartman company the credit authorization is made at the central office. The Atlas radio chain, because its stores are widely scattered, makes the credit authorization both at the home office and at the branch offices. In either case, the merchandise is not delivered to the customer until the credit is approved. In contrast with this procedure, Grinnell Brothers, a music chain, and the Detroit Edison Company authorize their store managers to grant installment credit. Neither company has, as yet, suffered any undue losses through this procedure, which facilitates the granting of credit and enables the companies to make prompter deliveries of merchandise sold.

In all four chains the installment payments are made at the retail stores making the sales. The retail store managers, then, must either report to the central office the receipt of payment from each installment contract outstanding or report that payment has not been made. If a contract is reported as delinquent, the collection process, except for the Detroit Edison Company, is handled directly from the central office, and this procedure gives the central office an immediate check on the accuracy of the installment collection report of the individual retail store manager. In the Detroit Edison Company, the collection of delinquent accounts is taken care of through the

district offices. The delinquents are usually customers of the company for electrical service, and adjustments in collecting from them are made with due consideration of the circumstances surrounding each case of delinquency. In this way the company attempts to handle collections with the minimum loss of public good-will, which is particularly valuable to a public utility.

A further control of installment sales in these companies is secured through prescribing a definite procedure for the retail store manager in recording the receipt of individual installment payments.¹¹ In addition to the installment records in each store, duplicate records are kept at the central or branch offices. The store records of installment sales are occasionally checked by the district managers and auditors from the central office to prevent the store manager from being careless in handling installment sales.

Credit sales of any type are most easily handled by local chains or chains with such a large volume of credit business in one locality that a special credit representative may have immediate supervision over credit granting in the various stores in one locality. If the stores are small and scattered, the control of credit granting is more difficult. The central office must, to some extent, rely upon the store managers for granting credit or upon formal credit reports, if the central office itself grants the credit. The length of time required for the central office to handle credit adds to the sales resistance encountered at the retail stores.

EXPENSES

Most of the expenses in a retail store are the result of contracts entered into by the liaison or central office divisions of the chain, and consequently the contracts supply the central office with adequate control. Expenses of this type are manager's salary and commission, rent, insurance, and public utility services. The expenses that cannot be checked by previous

¹¹ The procedure involves giving a receipt to the customer paying an installment, keeping a record of payment in the store, and forwarding a duplicate of the receipt to the central office.

contracts are, as far as possible, checked by the liaison division in the regular supervision of the store.

When the district manager visits each store once or twice a day, as in the Chicago stores of the National Tea Company, there is no payment for expense that is not under his complete control. When stores are scattered and the district manager's visits are less frequent, the store manager may find it necessary to authorize occasional emergency expenses which, in such organizations as the national grocery chains, are checked by the district manager on his next visit to the store. In the scattered stores of Grinnell Brothers, Mary Lee candy shops, Peck Drug Company, and the department store and variety chains, small expenditures by the store managers are checked by the liaison divisions through supporting vouchers, and the reasonableness of the purpose in connection with the amounts of the various expenses is determined.

Pay-roll represents by far the most important expense that is difficult to control. Unless a supervisor is in daily contact with a store, there is the danger that store pay-rolls may be padded. This danger may be minimized in stores without daily supervision if the supervisor, on an unexpected visit to a store, checks the time cards with the employees actually in the store at the time of the visit. One chain store operator insists that there is less danger of mistakes in pay-rolls if each store manager sends his pay-roll report to headquarters and receives in return special checks with which to pay the retail employees than if the store manager pays employees with part of the cash received from sales.¹² The common practice in the grocery and variety chains is for the store manager to pay the store employees from the cash receipts of the store. The employees in each store sign receipts for wage payments, which, together with the sales report, are forwarded to the central office by the store manager. The check on the time records of employees, as described above, is expected to prevent or to detect any padding of the pay-roll.

¹² M. L. Eckstein, "Paying Salaries by Check Halts Leakage of Funds," *Chain Store Age*, mdse. ed., VI, 2 (1930), p. 33.

For the small cash expenses at the retail stores, only one practice is common to most chain stores. A petty cash voucher system is maintained at each store for the payment of these items. The supervisor approves these expenses before they are presented to the central office.¹³

The control of the payments of all other expenses of the retail outlet follows a variety of practices. Rent is uniformly paid by the central office directly to the lessor. Payments to public utilities for services rendered are paid directly by the store manager, unless the outlets are concentrated. Miscellaneous expenses are paid from petty cash or are approved by the store manager and store supervisor for direct payment by the finance division of the central office.

A further control of expenditures made by a store manager is secured by a systematic evaluation of each expense in terms of its reasonableness. A chain store organization has the opportunity of comparing the detailed operating results of its various retail stores. Such a comparison enables the management to establish reasonable operating ratios as standards for various types of expense. It is also possible to budget the detailed expenses of the various retail stores accurately. By comparing the actual expenses of a store with its budget, the central office can detect any loosely controlled expense that is suspiciously large, and steps can be taken to determine the cause. An example of this form of control was found in the Great Atlantic and Pacific Tea Company. One division of the central office systematically compiles, weekly, the ratio of various items of expense in each store to the store's sales. Any expense ratio that deviates very far from the same ratio in other stores is subject to investigation to determine the cause. Such a procedure will probably uncover any padding of expenses by a store manager which is not discovered through the other routine supervision and auditing of the store's operation.

Except in department stores, store managers are usually prohibited from making direct purchases of merchandise for resale. Most store managers would not be capable buyers of

¹³ In department store chains, the operation of the petty cash fund is under the control of the store controller.

the merchandise which they handle, nor could they manage their stores systematically and also spend varying amounts of time from day to day interviewing salesmen and inspecting merchandise. Such chains as S. S. Kresge and F. W. Woolworth keep salesmen from bothering their store managers by the regulation which prohibits the store managers from making purchase contracts. The result is that store managers can concentrate on the other tasks given them by the central office. In addition, all problems in respect to managers' buying, including control, are eliminated.

LIMITS OF FINANCIAL CONTROL

From the previous discussion of financial control of the retail stores of a chain it is evident that certain characteristics are outstanding. First, the receipt of cash from the sale of merchandise and the payment of expenses are usually separated, with cash receipts being deposited into one fund and all expenses being paid from other funds created by transfer of the cash receipts to the central office. Second, all cash receipts of the stores are transferred as fast as is practicable to the control of the central office through banking the sales receipts. All large payments of expenses incurred by the retail stores are paid directly by the central office. Third, the store managers are made directly responsible for the accuracy of the reports of sales and expenses incurred by the individual stores. Fourth, all accounting work, as far as possible, is performed by the central office. Fifth, the circumstances peculiar to a given chain may cause it to deviate from the characteristics stated above. Such deviation, however, is made for the purpose of securing greater economies in operation or better co-ordination within the chain, or for the purpose of following long-established policies which have proved desirable in the past.

CONDITIONS DETERMINING FINANCIAL CONTROL

The condition which is most responsible for determining the exact nature of the problem of financial control, and, consequently, the type of financial control used by a chain, is the character of the merchandise handled. The character of the merchandise determines, in the first place, whether the retail

method of inventory control is practicable or whether inventory control must be exercised on a cost basis. If the retail method is used, it is valuable as a check on the financial control and simplifies the financial control problem, since stock shortages reveal dishonesty or carelessness in handling merchandise and finances within the store. If the cost method of inventory control is used, as is necessary in restaurant, meat, fruit and vegetable, and office supply chains, it may be desirable, in many instances, to set up a cashier system within the store which will make it impossible to sell merchandise without recording the amount of the transaction.

The consumer's attitude towards the merchandise is a second important consideration in determining the financial conditions of the sale. Merchandise of large unit value, such as radios and furniture, must usually be sold on a credit basis, and the plan for control of finances must include the control of credit sales. Chains selling convenience merchandise, such as food chains of all types, usually operate on a cash basis and thus eliminate the problem of credit control. The chief executives of chains handling style merchandise, such as wearing apparel and department store chains, may decide upon a credit or cash policy on the basis of market strategy, for the nature of the merchandise is such that it may be sold on either a credit or a cash basis.

The number of retail outlets does not in any way determine the problem of the control of credit except that local chains can handle open credit sales more easily and conveniently than can chains with scattered outlets. Department stores or other chains with large retail units are exceptions to this statement.

If the outlets of a chain are grouped within small geographical areas, it is also possible for the liaison division of the organization, by daily contacts, to exercise close personal supervision of the finances of the individual units.¹⁴ If the individual outlets are large, as, for example, many department store units,

¹⁴ The supervisor may check the cash register readings, deposit sales receipts, and note any salesperson who does not follow the correct procedure in handling cash. These duties are performed by supervisors in grocery and restaurant chains in which the retail outlets are closely grouped.

it may be possible for the central office to place an auditor or credit supervisor in the outlet to direct the financial control within the store.¹⁵ It is also possible for large retail outlets to employ more highly skilled managers, who may be expected, within limits, to handle the granting of credit within their stores. These managers may also be expected to exercise the financial control that is necessary if independent service organizations are employed for the installation and maintenance of electrical appliances or other merchandise for which such special services are required.

Transportation and communication facilities have improved in the past few years and, consequently, have increased the geographical area in which a group of retail stores may be located and still be given adequate financial supervision in the use of credit, special services, and the cost method of inventory. Accordingly, it is now easier than it formerly was for a chain to exercise over its retail outlets the financial control that is necessary when credit and other special services are given to customers. The problem of financial control is thus becoming less and less a barrier to the merchandising division of a chain in the determination of merchandising policies. Retail outlets can be extended farther into the country districts, and credit and other special services can be given and controlled. The added cost of these services and their control appears, however, to offset, in many instances, the added gross margin which is secured by their adoption, and, for many chains, the nature of the merchandise handled does not make additional financial service desirable. Many chains have used their new freedom in merchandising to expand the number of outlets rather than to add to the services offered to the public. Competition among chains in the future may result in new services' being offered to the public, if such a step seems desirable. The problem of financial control does not prevent this increase in services if supervisors and financial executives are in close contact with the store managers.

¹⁵ Special financial representatives of the central office were found in the large retail outlets of four of the six department store chains.

CHAPTER 5

CONTROL OF PERSONNEL

The personnel function permeates the entire organization of chain stores. It is not necessary to chain store operation that the personnel function be delegated to special members of the organization who constitute a personnel department. It can be taken care of by the line executives, who, along with their other duties, include the personnel work relating to their subordinates in the organization. This fact explains why, in Table 6, only a minority of the local chains have a personnel department.

A chain is considered to have a personnel department when one or more members of the organization specialize in handling personnel tasks, such as employment and training, which would otherwise have to be handled by the line executives of the store management division. The members of the personnel department are a part of the staff of the chief executive in charge of retail store operation. Their relationship with the line executives in charge of retail store operation and the employees in the stores depends upon the responsibility and authority delegated to them by the chief executive. In general, the personnel departments are not intimately connected with the retail stores, and much personnel work which, in large department stores, is carried on by the personnel division—for example, employment and training in store system—is, in chain stores, performed by the store managers and their assistants.

Table 6 shows the number of chains included in the survey with and without personnel departments. The chains are subdivided on the basis of size and types of merchandise handled. In contrast with most of the sectional and national chains, considerably less than half the local chains have a personnel department.

Although chain stores can operate satisfactorily without a special personnel department, there is a reason for having personnel departments in certain local chains, as, for example, in Horder's, Inc., a local office supply chain serving the Chicago market. An increase in sales could be secured either by placing

TABLE 6—NUMBER OF CHAINS WITH PERSONNEL DEPARTMENTS CLASSIFIED ACCORDING TO SIZE AND TYPES OF MERCHANDISE HANDLED

Type of Chain	Number of Chains	Local Chains		Sectional and National Chains	
		With Personnel Depts.	Without Personnel Depts.	With Personnel Depts.	Without Personnel Depts.
Confectionery and restaurant	6	2	3	1	---
Men's clothing	5	---	4	1	---
Department store	6	---	---	6	---
Drug	8	2	4	2	---
Dry goods	7	---	---	6	1
Furniture	2	---	---	2	---
Electric appliances	4	---	---	4	---
Grocery	6	1	2	2	1
Hosiery	3	---	---	---	3
Men's furnishings	4	---	3	1	---
Millinery	2	---	---	2	---
Music	1	---	---	1	---
Office supplies	1	1	---	---	---
Shoes	2	---	---	1	1
Variety	2	---	---	2	---
Women's ready-to-wear	3	---	---	3	---
Total	62	6	16	34	6

stores in other markets or by increasing sales per store in the present market. Many of the economies in operation which the Horder company secures as a chain are secured by methods that could not be used by a sectional or national chain. Consequently, the intensive cultivation of the local market is the method used to increase sales volume. A personnel department fits into this plan as a method of increasing sales through improving the merchandising and customer relations maintained by the chain. The same reason exists for the strong personnel department of the Sanders restaurant chain and the Economical Drug Company of Detroit. On the other hand, if

the chief executives of a local chain have given no special consideration to personnel as a specialized function of business, no personnel department will exist. If the chain is planning an expansion to new markets rather than the intensive cultivation of old markets, the need for a specialized personnel department will be less pressing since the sales volume will be increased by adding stores in new markets.¹

In the sectional and national chains, the lack of personal contact between members of the organization and the fact that difficult personnel problems arise at irregular intervals usually make a personnel department desirable. Moreover, the establishing of a personnel department will enable a chain to hire an expert in personnel, which should result in a better performance of this function and also enable other members of the organization to direct more of their attention to their own specialized fields.

In the sectional and national chains, except department stores, the personnel division has representatives working out of the central and divisional offices, who visit the retail stores at irregular intervals. The personnel department for the retail store division of such chains as the Great Atlantic and Pacific Tea Company and the S. S. Kresge Company is a part of the staff of the general manager in charge of retail stores.² Probably the most important task performed by the personnel departments is to have available at all times a sufficient supply of potential executives so that any vacancy among the retail store executives can be filled by capable and trained men. In this connection, personnel records are kept which enable the personnel department to recommend promotions on the basis of merit. The personnel departments also seek out potential

¹ It is probable that the point has been reached in many parts of the United States where intensive rather than extensive markets will be more profitable in chain store expansion. It may logically be expected that expansion through intensive cultivation of a market by a chain will be accompanied by an increase in the size and importance of its personnel department. An explanation of the difference in the emphasis placed upon personnel by department stores and chain stores is that department stores expand largely through intensive cultivation of a market while chain stores expand through spreading to other markets.

² In the Great Atlantic and Pacific Tea Company, each of the seven geographical divisions of the chain has its own personnel department.

executive material and train the men for executive work. In addition, the personnel department assists the operating division in planning training courses for retail store employees and, in some instances, carrying on research work not directly related to personnel.³ The executives in the divisional personnel departments of the Great Atlantic and Pacific Tea Company spend approximately half their time in the field. In the Kroger Grocery and Baking Company, as already mentioned, service shoppers supply the central office with information in respect to each store, which is then relayed through the line executives of the store operating division to the individual store managers. The Willmark Service System, an outside shopping organization, is used by Montgomery Ward and Company. The Willmark shoppers check the honesty of the retail salesmen and also test the salespeople in respect to inefficiency, indifference, and discourtesy in selling. The Willmark Service gives the central office an independent check on store managers, and store managers a check on individual salesmen.

In many of the local chains the central office is able to observe the ability of store managers and the salespeople in the retail stores. In local chains of three or four stores, such as the Calkins and Fletcher and Crippen drug chains, the owners are in daily contact with each store and its personnel. The president of the Albert Hoefeld Company, a local men's furnishing chain of Chicago, is in direct contact with all employees in the retail stores. Mrs. Snyder of Mrs. Snyder's candy stores of Chicago hires all employees in her chain of stores and maintains a direct contact with them. In these chains, the presidents of the companies, with the assistance of other central office executives, handle, with apparent success, the work that is assigned to a special personnel department in larger chains.

The central management of the Economical Drug Company of Detroit finds a personnel department convenient, if not essential. Each store includes in its personnel a manager, registered pharmacists, experienced salespeople, soda fountain

³ For example, members of the personnel department of the Detroit division of the Great Atlantic and Pacific Tea Company have carried on research to find standard allowances for inventory shortages in the retail stores.

operators, and, perhaps, waitresses and a cashier. The specialization within the store makes it necessary to fill vacancies as rapidly as they occur. Consequently, even if there were no formal personnel department in the central office, the store manager or someone in the central organization would have to be in contact with reserves for the various positions that could be called upon for service at any time. There is much less work involved, and probably more skilled specialists are secured if the central organization maintains a trained reserve staff that can be shifted from store to store and does not depend upon each store manager's providing his own reserves.

In the sectional and national chains without a formal personnel department, the responsibility for personnel work rests with the major line executives in the central office. Thus in the National Tea Company the office manager, the warehouse manager, the bakery manager, and the general manager in charge of merchandising perform the personnel functions within their divisions of the organization. The duties of the general manager are so many and varied, however, that the personnel function within the retail stores is handled almost entirely by the district managers and supervisors of the liaison division of the chain.⁴

A contrast is found between the personnel divisions of large department stores and the same divisions in chain stores. In the larger department stores, such as the J. L. Hudson Company of Detroit, the personnel department is in direct contact with each routine employee of the store. In all except the small chains, the wide geographical distribution of the stores prevents a close contact between the personnel department and the routine employees in the various stores. The method used by the Kresge variety chain illustrates the general method of many large chains which do not maintain a separate personnel department in each store. In the Kresge chain, the managers of the retail stores have the dual function of personnel supervisors and line executives. The personnel department, which

⁴ Personal visits to retail stores of this chain in different districts revealed one district in which the neglect of personnel work was evident in the slipshod methods of selling.

operates from the central office, contacts the retail store employee through the delegation of responsibility and authority for much of the personnel work to the store managers. The personnel department in a local chain can more nearly parallel the work of the personnel departments of the large department stores. In Sanders, a local Detroit restaurant chain, for instance, the personnel department handles the selection, placement, and introductory training of store employees. Personnel work within the retail stores is done by the store managers under the supervision of the personnel department. This division of personnel work enables the chain to secure uniformly well-qualified and well-trained employees in the retail stores without the expense of a heavily staffed personnel department. Technically, it is a better procedure than for the personnel staff to work in the stores independently of the store manager.

The extent and nature of the segregated personnel work of a chain largely rests with the chief executives and owners. The natural conditions of operation, which make for more or less uniformity in the control of merchandise, inventory, or finance in competing chains, do not result in uniformity in their methods of handling personnel. The reasons appear to be, in the first place, that the spirit of personnel administration and its content are more important than the objective factors which determine the specific technique of its administration and control. The nature of the merchandise handled and the size, number, and location of retail outlets determine very definitely the types of merchandise, inventory, and financial controls which are necessary, and, within wider limits, the character and ability of the retail store managers who must be employed. The chief executive can be quite arbitrary, however, in determining the extent to which the personnel function shall be segregated as a special division of the organization, and the relationship between the personnel department and the other divisions of the business.

In the second place, it is impossible to segregate all the personnel work of a chain. Most of the work is, necessarily, carried on informally by the executives of the various divisions of the business in their constant contact with subordinates. The

personnel department acts as a service division to the other departments. In the history of a chain it is usually established at a later date than are the other major departments, and its duties and responsibilities are those which have been transferred to it by other departments. Consequently, the extent and nature of the tasks transferred to the personnel department depend frequently upon the difficulties in personnel work which arise and which cannot be handled successfully by other divisions of the chain. The direct cost of personnel work is kept at a minimum by continuing the remainder of the personnel work in the various operating departments.

In the third place, most of the measurements which are used in determining the performance of the personnel in the various retail stores are found in the statistics that are used in controlling the merchandise, inventory, and financial phases of the business. Thus, failures to follow merchandising policies, too heavy an inventory or wage expense, stock shortages, theft, and carelessness in handling finances, are first detected in other divisions of the business. In rectifying such undesirable conditions, the line executives in these other divisions usually exercise, in great part, the personnel function, since no special representative of the personnel department is immediately available at the outlet to handle the personnel phases of the situation. This condition makes it necessary for the personnel department to delegate the handling of detailed personnel problems in the retail stores to liaison and store executives and to direct much of its own activity towards training these executives in the technique of personnel.

Although the extent of segregated personnel work may vary widely in chains of a similar type, fairly uniform personnel methods are found to exist. The greatest variations are found in small chains, many of which have not departmentalized the personnel function. Personnel work, in varying degrees, is carried on by the line executives in the central office, and by the liaison and retail divisions of the organization as a part of their routine work. Small chains are usually local chains. Their first active steps in personnel work in the retail stores are centralized employment, centralized training classes, which

are possible because of the small area in which the stores are located, and the use of one central store in which new employees are given a preliminary training before being transferred to permanent positions in other stores. These centralized training stores also appear in chains handling style and specialty merchandise, such as shoe, restaurant, candy, wearing apparel, and millinery chains, and in radio and other chains which use outside salesmen. Employment may or may not be centralized, although, in local chains, the general manager or the owner may desire to interview and pass upon every prospective employee who is considered for a position. This personal contact with the owner is expected to add to the *esprit de corps* of the organization.

If the units of a chain are scattered, or if a chain is selling convenience goods, with no special aim for distinction in its selling service, it is apt to rely upon the individual store managers and supervisors for the employment and training of the routine employees in the retail stores. An exception must be made in the case of skilled technicians in the retail store, such as pharmacists, who are likely to be trained close to and under the direct supervision of the central or branch office. If the units of a chain are sufficiently large, as is frequently the case with department store chains, each store may have its own personnel department, which carries on the organized personnel work within the store under the general policies laid down by the personnel division of the central office.

The control of personnel in the retail stores by the central office does not have a special technique of its own. The executives in the personnel department are largely staff officers, and they exercise their control over the personnel activities in the retail outlets through the line executives in the merchandising, inventory, and financial departments of the business. The active co-operation of these executives is essential for the success of the personnel work in the retail stores.

The problem of building and maintaining morale among the retail store employees is one of the most difficult problems faced by chain stores. By and large, many of the factors affecting morale are intangible and center around the personal

relationships that exist in each retail store. Therefore, it is essential for morale that the executives in the retail stores have the personal characteristics and mental attitudes which secure the good-will and co-operation of the routine employees.

Fairness in the amount of compensation to routine employees is essential in building a strong morale. Incentive methods of compensation may be used to stimulate and to give direction to the activities of retail store employees. However, the use of incentives involves a danger of misplaced emphasis on the part of the employee in carrying on his work. Incentives also endanger the morale-building power of compensation, especially if the amount of compensation is determined by a rating system reflecting the opinion of executives in the chain. Most of the chains avoid this danger by basing incentive payments on definite financial figures which are not subject to arbitrary manipulation. Incentives are also based on sales volume or some form of store profit and thus act as a general incentive for good management in all phases of store operation.

Indirect control and supervision of employees by the personnel department have probably intensified many of the personnel problems in chain store operation. In the future, these conditions may be improved as better transportation facilities permit closer contacts between the personnel department and the retail stores, and as chains concentrate their outlets into groups within narrow geographical limits. Such changes will still further increase the possibilities of direct contact between the personnel in the stores and the personnel department. Under these conditions a chain will have made the possibilities of direct personnel control practically the same as exist in a single store whose sales are comparable with the total sales of the chain.

CHAPTER 6

CONCLUSIONS

Our study of the control of the retail outlets of chain stores finds nothing unique in the technique of control. Every device employed by chain stores is found in other types of retail stores. Department stores, in particular, use the same devices of control, frequently with added refinements. It is interesting to note, however, that department stores as a group have not been so successful as chain stores during the past few years. Many department stores have been faced with the annual recurrence of decreased sales, increased expense, and a lower net profit.¹ Under these conditions the National Retail Dry Goods Association and its members have given detailed study to the problems of control, and, if control were the test of profitable operation, department stores would probably be superior to chain stores. This point is made because it leads to the conclusion that the remarkable growth and success of chain stores during the past few years has not been caused by control. Control, of course, is necessary, but control in or of itself does not always insure profitable operation even if the management of the department or chain store has at least average ability.

There is no proof that the systems of control which have been devised are more adaptable to chain store than to depart-

¹ The performance of department stores reporting to the Bureau of Business Research, University of Michigan, for each of the four years 1928-31 in comparison with the preceding year is as follows:

	Change in Volume of Sales % *	Change in Expense % †	Change in Net Profit % †
1928	+ 1.4	- 0.4	- 0.9
1929	- 3.3	+ 1.2	- 1.8
1930	- 10.1	+ 1.3	- 2.7
1931	- 14.5	+ 1.3	- 2.3

* Base: Net sales preceding year = 100%.

† Base: Net sales same year = 100%.

ment store operation. For either type of store, the methods of control supply as much detailed information in regard to internal operations as may be desired and afford means of carrying out any policies which may be decided upon from the facts at hand. It is evident, then, that there is no magic in the control of chain stores and that we must look elsewhere to find an explanation of the amazing growth of the chain store method of distribution of merchandise.

Neither personnel nor personnel policies explain the success of the chain store method. The major personnel policies of most chain store organizations find their counterpart in many department store organizations. The executive personnel of the chains, although confident with success, does not appear to be superior to similar groups of department store executives. Most department store and chain store executives are willing to work in either type of store.

Although it is not a part of our task to explain the success of chain stores, except as their success has been made possible by control, our comparison of control between department stores and chain stores makes it desirable to point out some fundamental differences between these two types of retail institutions which, in part at least, explain the differences in the success of their merchandising activities.

The nature of overhead costs and the mirage of a large net profit have led many department store managers to increase sales volume far beyond the point of most economical operation. The sales volume is increased by the use of intensive sales promotion methods, the most obvious of which are advertising and elaborate services to customers. Successful chain stores, on the other hand, usually increase their sales volume by establishing new outlets rather than by pushing the sales volume of any one outlet beyond the point of most economical sales cost. Sales promotion work is carried on through inexpensive but effective displays within the store. Only a relatively small amount of advertising is used, and services to customers are limited to those expected by the economically minded buyer. These differences between the sales promotion methods of chain and department stores are sufficient to indicate that

fundamental differences in their policies of expansion may be the cause of the differences in the success of department and chain stores.

The amount and nature of organized control in a chain varies with the size of the chain, the size of the outlets, the location of the outlets, the nature of the merchandise handled, and the whims of the major executives.

SIZE OF THE CHAIN

The small local chain is usually created by the proprietor of some successful unit store who opens up other conveniently located outlets. The same methods of control are used in the outlets as in the parent store. Since such control usually consists at least of a record of expenses and a system of handling cash and accounts receivable, these are the items which are found to be systematically controlled in even the smallest chains. The personal supervision of the added outlets by the proprietor or general manager supplies the control of inventory and merchandising activities. The employment and training of the additional personnel are usually under the immediate direction of the supervising executives of the parent store.

In chains handling groceries, drugs, and men's furnishings, such a method of control is apparently adequate for any number up to fifteen stores.² Apparently those in authority believe that the cost of more elaborate control would be greater than the value derived from it. In small meat, candy, and restaurant chains, the importance of frequent physical inventories makes an accurate control of the inventory in each outlet necessary, and, consequently, the systematic control of inventory is a common feature of these chains.³

The conclusion which may be reached in regard to small local chains is that the extent of systematic control found necessary in operating a single store is the extent of the control necessary for operating several stores. Additional written

² A more highly functionalized organization than that described was not found in any chain with less than fifteen outlets that handled groceries, drugs, or men's furnishings.

³ In all chains of these types, a systematic control of inventory was found. Specialized personnel departments were common in candy and restaurant chains.

records and reports become necessary only as the personal supervision of the chief executives decreases or a lack of confidence in the ability and integrity of some of the store managers arises in the minds of the executives in the central office.

From the standpoint of the control of the retail outlets, the national and sectional chains operate under similar conditions. The national chains divide their retail outlets into groups which are placed under the immediate control of branches. Within the general policies laid down by the head office of the chain, each branch operates as a central office, and its operations are comparable with the operations of the central office of a sectional chain in the relationship which exists between the retail stores and the central organization.

The sectional and national chains differ from many local chains in the accuracy of the inventory records which are kept for merchandise in the retail stores. These accurate inventory records, plus the control of finances and expense, supply the central office with sufficient information to determine stock shortages and gross margin at frequent intervals. The chief difference in the control of merchandising between the large and small chains is that, in the large chains, special store supervisors replace the proprietors or central office executives of the small chains in personally directing the merchandising activities of the retail stores.

SIZE OF INDIVIDUAL OUTLETS

The size of the sales volume of the individual outlets is apt to make considerable difference in the control exercised by the central office. Large outlets have large profit or loss possibilities. Consequently, the salary and income possibilities of the store manager are sufficiently great to make possible the employment of men with greater than average skill in merchandising and management. Under these conditions, the central office of the large-sized outlets takes advantage of the greater skill of the store managers and allows them a greater freedom in merchandising than is feasible in smaller stores. The greater skill of the store manager results in a better-managed store; the greater freedom of the store managers

results in a store which is more nearly adapted to the buying habits of the community in which it is located.

The greater freedom of the large outlet means that less intensive directive control is exercised by the central office. It does not mean, however, any reduction in the evaluating phase of control. The results of the store manager's work are determined and scrutinized as closely as they are when the store manager mechanically follows the directions of the central office and supervisor.

THE LOCATION OF THE OUTLETS

The location of the outlets of a chain in relation to each other and to the central office plays an important part in the type and extent of control exercised over the retail outlets. A small, compact local chain requires practically the same amount of control as a unit store of the same type. Personal supervision from the central office provides most of the control of the various outlets. As the distance between stores increases, written, formal control must necessarily supplant, in part, personal supervision. A small chain, with widely scattered outlets, will need an intensive control from the inception of the chain, unless each outlet is sufficiently large to justify a highly skilled manager in whom the central office has complete confidence.

The chain with scattered outlets loses many of the advantages of chain store operation which are available to both small, compact chains and large national or sectional chains. In the small, compact chain, the central office can supply a centralized service for window displays, advertising, sales promotion, buying, and personnel. Such services cannot be so satisfactorily supplied to outlets at a considerable distance from the central office. As in the case of the small chain, a national chain, through its branch offices, is able to render these services to its retail stores, which are located within a convenient distance of each branch and, in this respect, have the same advantages as the compact local chain.

There are few chain stores operating with widely scattered stores except department store chains with large retail outlets. It is doubtful whether the measure of success secured by these

stores has been enhanced by the chain store method of operation. Independent department stores, on the average, seem to be as successful as the department stores under chain store management.

NATURE OF MERCHANDISE HANDLED

The exact technique of inventory and merchandising control of any chain depends largely upon the nature of the merchandise handled. There are two aspects to the nature of the merchandise that require consideration. The first is the physical nature, which determines the method of handling that is necessary to prevent physical spoilage or other loss. The physical nature of the merchandise may limit the control methods possible. For example, it is impossible to use the retail method of inventory in meat chains, which cut the wholesale pieces at the retail store, or in restaurants, where the same raw material may be prepared in various ways. Consequently, it appears that for many items the physical nature of the merchandise and the special methods of handling that are required set up requirements for control which definitely limit the control methods which may be used.

The second aspect of the nature of the merchandise to be considered is the consumer's attitude toward it. The fashion element may be so important that a large part of the control of merchandising and inventory will center around methods of interpreting the fashion trends and securing a rapid stock-turn of high-fashion merchandise. Such a condition exists in women's apparel and shoe chains.

The value of the individual units of merchandise also influences the methods of control. If the unit value is large, the control system may provide, by some form of unit control, for a complete history of each item, or group of identical items, which passes through the chain. If the unit value is small, the control will be over groups of similar items, and probably some form of the classification or tickler system will be used for purposes of merchandise control.

The nature of the merchandise is frequently the dominating factor in determining the employment standards of the chain

and the personnel policies which are adopted. Some restaurant and candy chains strive for individuality in salesmanship and service, and require special personal characteristics in each employee. Merchandise of a specialty nature requires an expertness in salesmanship which involves special training. Thus, in radio chains, outside salesmen usually receive special training in salesmanship at the beginning of and during their period of employment. Variety chains handle impulse and convenience merchandise and do not stress aggressive personal selling.

THE MAJOR EXECUTIVES

The kind and extent of control used by a chain is to some extent arbitrarily decided by the proprietor or general executives. The minimum control is that control which secures sufficient co-operation among the group of employees to enable the chain to be called an organization. Beyond this point, control may take on any degree of detail or any method on which the executives of the chain decide. This condition explains both the great similarities and the differences in control among chains. The fact that an individual is a major executive in a chain and is able to dictate control policies and methods indicates previous successful experience in management and in the use of control. The executive is familiar with the more efficient methods of control and follows one of these methods with such variations as the immediate operating problems of the chain require.

THE TYPICAL CHAIN STORE ORGANIZATION

Although many factors influence the technique of chain store control and cause variations in the organization for control, one general type of organization is the basis for control in all sectional and national chains and in many local chains. The characteristic of organization that is peculiar to chain stores is the store management department in the central office through which the directive control of the retail stores is secured. The store management department co-ordinates the information, orders, and instructions that originate in the various departments in the central office. This co-ordinated mate-

rial is then sent to the retail store managers, who put the orders into effect.

Much of the constructive work of the store management department involves various closely related merchandising activities which cannot be reduced to the routine of control which is possible in the case of inventory and financial control. Consequently, the store management department may be also the merchandising department of the central office and contain the advertising, sales promotion, and, perhaps, the purchasing activities in subdepartments.

The next major division in the chain store organization for the control of the retail stores is the liaison division, which is headed by a general manager of retail stores in the store management department. The liaison division is organized along military lines and has the responsibility for directing the store managers in carrying out the orders from the central office, for supervising the store managers in all phases of retail store operation, and for evaluating the results secured. Since the liaison division is organized along military lines, it may be expanded or contracted to fit any size of chain by increasing or decreasing the number of branch managers, supervisors, and district managers.

The central office has no adequate check on the liaison division if it is the only contact between the central office and the retail stores. Therefore, it is necessary for some of the chief executives of the central office to inspect the retail stores and secure an independent evaluation of the work of the personnel of the retail stores and of the liaison division. Also, the chain organization may include inventory teams and auditors, reporting to the accounting department at the central office, and field men under the personnel department. These specialists supply a check on the store management division of the chain, with its various subdivisions, and they also serve as a check upon each other. As a result, the major executives of the central office are supplied with facts in respect to the retail stores and members of the liaison division from several independent sources. Thus, a series of checks is in effect that makes it possible for the

central office to detect any inaccuracies in the reports of a store manager or of a liaison executive.

Probably the most important general problem of control of the retail outlets of a chain at the present time is to secure the necessary freedom of operation at the retail outlets while maintaining adequate control by the central office. Freedom of operation is necessary to fit each individual outlet to the community which it serves. Detailed control by the central office is demanded to secure the economies of large-scale operation, to prevent fraud, and to utilize more fully the superior merchandising ability of the central office executives in directing the activities at the retail store. The result of detailed control is likely to be a stereotyped outlet, which is better than would be secured by less control but which could be greatly improved if each store were especially adapted to the community which it serves. This problem is being solved in several ways. Some chains are concentrating in larger retail outlets, which earn a sufficient gross margin to justify the employment of relatively highly paid and skilled store managers, who are given considerable freedom in management. Most chains are attempting to increase the managerial ability of all their store managers through educational work and to add to their authority by making the control from the central office more flexible. It follows that additional freedom in management is given to a store manager as rapidly as he proves his managerial ability, with the result that his store may be more individualized to meet the needs of the community which it serves.

APPENDIX

Chain stores that have contributed to the study through personal contact are given in the following list. The chains are classified according to the 1930 edition of *Chain Store Headquarters* by the Brokers Division of the National Association of Real Estate Boards. A few chains that are listed below were not included in this directory. Some chains that handle several types of merchandise are listed twice.

Restaurant and confectionery chains

Fingerle's—Ann Arbor, Michigan
MacDiarmid's, Inc.—Detroit, Michigan
Mary Lee Candy Company—Detroit, Michigan
Mrs. Snyder's—Chicago, Illinois
Sanders, Inc.—Detroit, Michigan
White Tower, Inc.—Milwaukee, Wisconsin

Men's clothing chains

Bedford Shirt Company—Chicago, Illinois
S. L. Bird and Sons—Detroit, Michigan
Browning, King and Company, Inc.—New York, New York
Albert Hoefeld—Chicago, Illinois
Washington Shirt Company—Chicago, Illinois

Department store chains

Block and Kuhl—Peoria, Illinois
Continental Department Stores—Lansing, Michigan
Hahn Department Stores—New York, New York
Kobacher Stores, Inc.—Toledo, Ohio
Montgomery Ward and Company—Chicago, Illinois
Sears, Roebuck and Company—Chicago, Illinois

Drug chains

Brownie Drug Stores—Detroit, Michigan
Calkins and Fletcher Drug Company—Ann Arbor, Michigan
Crippen Drug Company—Ann Arbor, Michigan
A. R. Cunningham—Detroit, Michigan

Economical Drug Company—Detroit, Michigan
Hynes and Murphy—Detroit, Michigan
Louis K. Liggett Company—New York, New York
Slater Drug Company—Mechanicsburg, Ohio

Dry goods chains

Knitting Mills Company—Bay City, Michigan
McAllister Stores—Chicago, Illinois
Montgomery Ward and Company—Chicago, Illinois
J. C. Penney Company—New York, New York
Sears, Roebuck and Company—Chicago, Illinois
Spurgeon Mercantile Company—Chicago, Illinois

Furniture chains

Hartman Furniture and Carpet Company—Chicago, Illinois
People's Outfitting Company—Detroit, Michigan

Electrical appliances (radio) chains

Atlas Radio Stores—Chicago, Illinois
Commonwealth Edison Company—Chicago, Illinois
Detroit Edison Company—Detroit, Michigan
Hartman Furniture and Carpet Company—Chicago, Illinois

Grocery chains

Great Atlantic and Pacific Tea Company—Jersey City, N. J.
Kroger Grocery and Baking Company—Cincinnati, Ohio
National Tea Company—Chicago, Illinois
C. F. Smith Company—Detroit, Michigan
Smith Brothers—Port Huron, Michigan
Pierce Stores—Ann Arbor, Michigan

Hosiery chains

Neumode Hosiery Stores—Chicago, Illinois
United Hosiery Stores Company—Chicago, Illinois
Pierce Knitwear Stores—Bay City, Michigan

Men's furnishings chains

S. L. Bird and Sons—Detroit, Michigan
Bedford Shirt Company—Chicago, Illinois
Albert Hoefeld—Chicago, Illinois
Washington Shirt Company—Chicago, Illinois

Millinery chains

Consolidated Millinery Company—Chicago, Illinois
S. J. Eisendrath—Chicago, Illinois

Music chains

Grinnell Brothers—Detroit, Michigan

Office supply chains

Horder's, Inc.—Chicago, Illinois

Shoe chains

Florsheim Retail Boot Shops—Chicago, Illinois
Walkover Shoe Stores (George E. Keith Company, Campello,
Mass.)

Variety chains

S. S. Kresge Company—Detroit, Michigan
F. W. Woolworth Company—New York, New York

Women's ready-to-wear chains

Jacobson Stores, Inc.—Jackson, Michigan
Lerner Stores Corporation—New York, New York
Sally Frocks, Inc.—Chicago, Illinois

